

GATEWAY REGIONAL SCHOOL DISTRICT

**FINANCIAL STATEMENTS
INCLUDING INDEPENDENT AUDITORS' REPORTS
FOR THE YEAR ENDED JUNE 30, 2009**

<p align="center">GATEWAY REGIONAL SCHOOL DISTRICT TABLE OF CONTENTS FOR THE YEAR ENDED JUNE 30, 2009</p>
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	<u>PAGE</u>
Independent Auditors' Report	1-1
Management's Discussion and Analysis (Unaudited)	2-1
Basic Financial Statements:	
<u>Exhibits</u>	
Government-Wide Financial Statements:	
A Statement of Net Assets	3-1
B Statement of Activities	3-2
Fund Financial Statements:	
C Governmental Funds - Balance Sheet	4-1
D Governmental Funds - Statement of Revenues, Expenditures, and Changes in Fund Balances.	4-2
E General Fund - Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual (Budgetary Basis)	4-3
F Business-Type Activities Enterprise Fund - Statement of Net Assets	4-4
G Business-Type Activities Enterprise Fund - Statement of Revenues, Expenses, and Changes in Fund Net Assets	4-5
H Business-Type Activities Enterprise Fund - Statement of Cash Flows	4-6
I Fiduciary Funds - Statement of Fiduciary Net Assets	4-7
J Fiduciary Funds - Statement of Changes in Fiduciary Net Assets	4-7
K Notes to the Basic Financial Statements	5-1
Combining Fund and Other Schedules:	
<u>Schedules</u>	
1 Nonmajor Governmental Funds - Combining Schedule of Balance Sheets	6-1
2 Nonmajor Governmental Funds - Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances	6-2
3 Nonmajor Special Revenue Funds - Combining Schedule of Balance Sheets	6-3
4 Nonmajor Special Revenue Funds - Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances	6-4
5 Nonmajor Capital Project Funds - Combining Schedule of Balance Sheets	6-10
6 Nonmajor Capital Project Funds - Combining Schedule of Other Financing Uses and Changes in Fund Balances	6-10
7 Fiduciary Funds - Combining Schedule of Net Assets	6-11
8 Private-Purpose Trust Funds - Combining Schedule of Additions, Deductions, and Changes in Net Assets	6-11
9 Reconciliation of Treasurer's Cash	6-12
Government Auditing Standards Report and Schedules:	
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	7-1
Report on Compliance with Requirements Applicable to each Major Program and On Internal Control Over Compliance In Accordance With OMB Circular A-133	7-2
Schedule of Findings and Questioned Costs	7-3
Schedule of Expenditures of Federal Awards	7-5
Summary of Prior Year's Findings and Correction Action Plan	7-7
Independent Auditors' Report on Compliance and Internal Control Over Compliance With Massachusetts School Districts	8-1
Report to Management	9-1

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INDEPENDENT AUDITORS' REPORT

To the School Committee of the
Gateway Regional School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Gateway Regional School District of the Commonwealth of Massachusetts (the "District") as of and for the year ended June 30, 2009, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Gateway Regional School District as of June 30, 2009, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the general fund for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2009 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

The management's discussion and analysis beginning on page 2-1, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The combining and other schedules, are presented for purposes of additional analysis; and the accompanying schedule of expenditures of federal awards is also presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and are not a required part of the basic financial statements of the District. The combining and other schedules, and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Stanley H. Kulas, CPA

STANLEY H. KULAS
Certified Public Accountant

October 28, 2009

GATEWAY REGIONAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2009

As management of the Gateway Regional School District of the Commonwealth of Massachusetts, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2009. We encourage readers to consider the information presented here in conjunction with additional information provided throughout this document.

FINANCIAL HIGHLIGHTS

On a government-wide basis:

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$31,181,744 and by \$57,151 for the governmental and business-type activities, respectively.(Exhibit A)
- The District's total net assets for governmental activities decreased by \$899,140 and decreased by \$2,338 for the business-type activities.(Exhibit B)
- The District's long-term obligations decreased by \$502,717 to \$8,766,617 for governmental activities and decreased by \$27,500 to \$61 for business-type activities during the year.

On a governmental fund basis:

- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$2,226,310 (Exhibit C), an increase of \$641,586 in comparison with the prior year (Exhibit D).
- As of June 30, 2009, the School Roof Repair Fund had a deficit balance of \$114,000. This deficit results from the accounting convention of recognizing revenue from debt only upon the issuance of permanent financing. As of June 30, 2009, bond anticipation notes (temporary debt) of \$114,000 have been issued to finance the roof repair. This deficit should be eliminated in subsequent years with financing from the general fund.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$866,807 (Exhibit C), or 5% of next year's budgeted general fund expenditures of \$17,115,511.
- The District's bond anticipation notes decreased by \$57,000 to \$114,000 during the current fiscal year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements; 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

GATEWAY REGIONAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2009

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets/(liabilities) may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of activities presents information showing how the District's net assets/(liabilities) changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected state grants are recognized as receivables due from other governments, and earned but unused vacation leave is recognized as a liability for compensated absences).

Both of the government-wide financial statements distinguish functions of the District that are principally supported by assessments and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The District has one business-type activity to "sell" laptop computers to students which it treats as an enterprise fund. The governmental activities of the District include administration, instruction, ancillary school charges, maintenance and operations, insurance and other fixed charges, programs with other schools, transportation, and capital improvements.

The government-wide financial statements can be found in Exhibits A and B of this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into two categories: governmental funds and fiduciary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Reconciliations to facilitate this comparison between governmental funds and governmental activities are provided in Exhibit C and Exhibit K – Note 2.

The District maintains various individual governmental funds. Information is presented separately in the governmental fund balance sheet (Exhibit C) and in the governmental fund statement of revenues, expenditures, and changes in fund balances (Exhibit D) for the general fund, the debt service fund, the state payments on-behalf of teacher retirement fund, and the school buildings construction and renovation fund, all of which are considered to be major funds. Data from the other governmental funds are combined into a single aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining schedules 1 through 6 in this report.

GATEWAY REGIONAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2009

The District adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget (Exhibit E).

The basic governmental fund financial statements can be found in Exhibits C through E of this report.

Proprietary funds. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The District uses an enterprise fund to account for its lease purchase of laptop computers from vendors and its subsequent lease sale of these laptops to its students. The accounting for this enterprise fund is the accrual basis.

The basic proprietary fund financial statements can be found in Exhibits F, G, and H of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the District's own programs. The accounting used for fiduciary funds is the accrual basis.

The basic fiduciary fund financial statements can be found in Exhibits I and J of this report.

Notes to the basic financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found in Exhibit K of this report.

Other information. The combining schedules referred to earlier in connection with nonmajor governmental funds are presented immediately following the notes to the financial statements. Combining and individual fund schedules and other types of schedules can be found in Schedules 1 through 9 of this report.

GATEWAY REGIONAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2009

Summary of the major features of the government-wide and fund financial statements.

	Fund Financial Statements			
	Government-wide Statements	Governmental	Proprietary	Fiduciary
Scope	Entire District (except fiduciary funds)	The activity of the District that is not proprietary or fiduciary, such as general government, public safety, and education.	Activities the District operates similar to private businesses.	Assets held by the District on behalf of someone else. Students and other organizations that have funds on deposit with the District are reported here.
Required financial statements	Statement of net assets, & statement of activities	Balance sheet, and statement of revenues, expenditures and changes in fund balance.	Statement of net assets, and statement of revenues, expenses and changes in net assets, and statement of cash flows.	Statement of fiduciary net assets, and statement of changes in fiduciary net assets.
Basis of accounting and measurement focus.	Accrual accounting Economic resources focus	Modified accrual accounting. Current financial resources focus	Accrual accounting Economic resources focus	Accrual accounting Economic resources focus
Type of asset and liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally, assets expected to be used up and liabilities that come due during the year or soon thereafter. No capital assets or long-term liabilities included	All assets and liabilities, both financial and capital; short-term and long-term	All assets and liabilities, both financial and capital; short-term and long-term. These funds do not currently contain any capital assets, although they can
Type of inflow and outflow information	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability are due and payable	All revenues and expenses during the year, regardless of when cash is received or paid.	All additions or deductions during the year, regardless of when cash is received or paid

GATEWAY REGIONAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2009

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a district's financial position. At the close of the most recent fiscal year, the District's assets exceeded liabilities by \$31,181,744 and by \$57,151 for its governmental and business-type activities, respectively (Exhibit A).

By far the largest portion of the District's net assets reflects its investment in capital assets (e.g. land, buildings, leasehold improvements, machinery, and equipment); less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to school children; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other services, since the capital themselves cannot be used to liquidate these liabilities.

DISTRICT'S NET ASSETS

Description	Amounts					
	Governmental Activities		Business-Type Activities		Totals	
	2009	2008	2009	2008	2009	2008
Current and other assets	\$ 2,516,665	\$ 1,954,713	\$ 57,212	\$ 87,050	\$ 2,573,877	\$ 2,041,763
Capital assets	38,691,504	39,876,685	-	-	38,691,504	39,876,685
Total assets	41,208,169	41,831,398	57,212	87,050	41,265,381	41,918,448
Bond anticipation notes	114,000	171,000	-	-	114,000	171,000
Other current liabilities	801,181	888,936	61	22,959	801,242	911,895
Long-term liabilities	9,111,244	8,690,578	-	4,602	9,111,244	8,695,180
Total liabilities	10,026,425	9,750,514	61	27,561	10,026,486	9,778,075
Net assets:						
Invested in capital assets, net of related debt ..	30,306,808	30,929,508	-	-	30,306,808	30,929,508
Restricted	1,109,340	634,026	-	-	1,109,340	634,026
Unrestricted	(234,404)	517,350	57,151	59,489	(177,253)	576,839
Total net assets	\$ 31,181,744	\$ 32,080,884	\$ 57,151	\$ 59,489	\$ 31,238,895	\$ 32,140,373

A portion of the District's net assets at June 30, 2009, \$1,109,340, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets \$(177,253), is further segregated by internal designations as shown below.

Description	Governmental		Proprietary	Totals
	Type	Type		
Designated for subsequent year's budget	\$ 496,084	\$ 57,151	\$ 553,235	
Undesignated and unreserved	(730,488)	-	(730,488)	
Total unrestricted net assets	\$ (234,404)	\$ 57,151	\$ (177,253)	

GATEWAY REGIONAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2009

Governmental activities. Governmental activities decreased the District's net assets by \$899,140 and \$896,093 for fiscal years 2009 (Exhibit B) and 2008, respectively. Key elements of these changes are as follows:

DISTRICT'S CHANGES IN NET ASSETS		
Description	Amount	
	2009	2008
Revenues:		
Program revenues:		
Charges for services	\$ 326,274	\$ 443,388
Member town assessments	1,353,354	1,301,392
Investment income	141	177
Other	49,484	79,468
Operating grants and contributions	6,289,971	5,304,307
General revenues:		
Assessments to member towns	8,668,741	8,337,290
Grants and contributions not restricted to specific programs	5,356,783	5,921,631
Miscellaneous	53,787	36,602
Investment income	44,369	54,293
Total revenues	22,142,904	21,478,548
Expenses:		
Administration	926,049	859,140
Instruction	10,520,523	10,244,076
Ancillary school services	1,125,161	1,054,135
Transportation	1,539,006	1,543,148
Maintenance and operations	1,530,297	1,725,247
Insurance and employee benefits	4,866,757	4,428,577
Programs with other schools	1,177,851	1,104,976
Capital improvements	7,363	-
Unallocated depreciation	983,256	1,032,533
Debt service	365,781	382,809
Total expenses	23,042,044	22,374,641
Change in net assets	\$ (899,140)	\$ (896,093)

- Revenues related to member town assessments increased by \$383,413 or 3.98%.
- Revenues related to operating grants and contributions increased by \$420,816 or 3.75%.

GATEWAY REGIONAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2009

Business-type activities. Business-type activities decreased the District's net assets by \$2,338 as gross revenues of \$28,551 from the sale of computers and interest income of \$1,276 were offset by \$32,165 of expenses.

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$2,226,310 (Exhibit C), an increase in the balance of \$641,586 in comparison with the prior year (Exhibit D). A summary of the components comprising these balances is described below.

Description	Balance 06/30/09	Balance 06/30/08
Reserved for designated expenditures	\$ 844,855	\$ 202,338
Reserved to reduce subsequent years' assessments	496,084	487,250
Reserved to segregate assets associated for food services inventory	5,446	4,688
Reserved to pay debt service	13,118	14,153
Unreserved - available for spending at the government's discretion	866,807	876,295
Total fund balances	<u>\$ 2,226,310</u>	<u>\$ 1,584,724</u>

The general fund is the chief operating fund of the District. At the end of the current fiscal year, total fund balance was \$1,220,042 (Exhibit C) of which \$866,807 was the unreserved fund balance. As a measure of the general fund liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total general fund expenditures and transfers for the current year. Unreserved fund balance represents 5.20% of total general fund expenditures and transfers, while total fund balance represents 7.31% of that same amount. These results are compatible with the 5.08% and 6.43% associated with the prior fiscal year.

The fund balance of the District's general fund increased by \$112,497 during the current fiscal year (Exhibits D). Key factors in this change are (Exhibit E):

- Use of \$231,250 of beginning fund balance to finance current year's operations.
- Current expenditures for instruction, insurance, transportation and the like were \$1,197,604 less than budgeted primarily because \$629,548 of instructional salaries were reclassified to the recovery act special fund.
- State aid transportation and Chapter 70 revenues were \$208,557, and \$629,548 less than budgeted, respectively.

The debt service fund has a total fund balance of \$13,118, all of which is reserved for the payment of debt service. During fiscal 2009, \$1,035 was transferred to the general fund to finance debt service expenditures (Exhibit D).

State payments on-behalf of the teacher retirement program totaling \$2,322,864 and \$1,915,132 for fiscal 2009 and 2008 were made directly by the Massachusetts Teachers Retirement System for the benefit of District teachers (Exhibit D).

GATEWAY REGIONAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2009

GENERAL FUND BUDGETARY HIGHLIGHTS

The District's original fiscal 2009 budget of \$17,882,520 did not change during the year; however, there were some minor changes reclassifying amounts between individual line items (Exhibit E).

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets. The District's investment in capital assets as of the end of the current fiscal year amounts to \$39,691,504 (net of accumulated depreciation). This investment in capital assets includes buildings, leasehold improvements, machinery and equipment, vehicles, furniture and fixtures, land, and computer equipment.

The major capital asset event during the current fiscal year was \$1,431,980 of depreciation expense. A summary of District capital assets at June 30, 2009 and June 30, 2008 is presented below.

DISTRICT'S CAPITAL ASSETS (net of depreciation)		
Description	Amount	
	2009	2008
Buildings	\$ 31,327,633	\$ 32,102,472
Leasehold improvements	7,081,769	7,240,910
Computers	179,853	189,541
Machinery and equipment	44,863	51,940
Furniture and fixtures	26,109	246,885
Land	17,250	17,250
Vehicles	14,027	27,687
Total capital assets	<u>\$ 38,691,504</u>	<u>\$ 39,876,685</u>

Additional information on the District's capital assets can be found in Exhibit K - Note 4 of this report.

Short-term debt. At the end of fiscal year 2009 and 2008, the District had total bond anticipation notes outstanding of \$114,000 and \$171,000, respectively; all of which is debt backed by the full faith and credit of the District and its member towns. The District's total short-term obligation is comprised of bond anticipation notes to finance school roof repairs.

GATEWAY REGIONAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2009

Long-term debt. At the end of fiscal year 2009 and 2008, the District's governmental activities had long-term obligation outstanding of \$8,766,617 and \$9,269,334, respectively; comprised of the following components.

DISTRICT'S OUTSTANDING LONG-TERM OBLIGATION		
Description	Amount	
	2009	2008
Bonds payable.	\$ 8,255,000	\$ 8,680,000
Notes payable.	2,800	5,039
Compensated absences.	474,238	461,187
Capital lease obligations.	15,696	96,177
Early retirement liability.	7,955	15,320
Unamortized bond premium.	10,928	11,611
Total outstanding debt.	<u>\$ 8,766,617</u>	<u>\$ 9,269,334</u>

The District's business-type activities paid off \$27,500 of its capital lease obligations during the fiscal year lowering its balance from \$27,561 at the beginning of the year to \$61 at year-end.

The District maintains a "BBB+" rating from Standard & Poor's on its general obligation debt. Additional information on the District's long-term and short-term debt can be found in Exhibit K - Note 4 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The Gateway Regional School District is dependent on the State of Massachusetts as well as seven member towns for the funding of the budget. Five of the seven towns must approve the school budget on an annual basis. The Gateway District is located in the Berkshires and is part of both Hamden and Hampshire County. There is little industry within the district, with the school district being the largest employer. Primary business within the district includes small general stores, self-employed contractors, restaurants, and health centers.

- The Gateway Regional School district had an increase of Chapter 70 of approximately 1.1% providing an additional \$64,700 in state revenues.
- Financial implications affecting the FY '09 budget were the following:
 - \$231,250 was used from E & D to offset the budget.
- At the end of the FY '08 fiscal year, unreserved balance for the general fund was \$870,764 or 4.87% of FY '09's budgeted general fund expenditures of \$17,882,520.

GATEWAY REGIONAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2009

These factors were considered in preparing the District's budget for the 2010 fiscal year.

- State chapter 70 funds for the District were reduced by two percent (\$119,727) to \$5,866,604.
- Regional transportation reimbursement is expected to be funded at a total amount of \$553,094 (56%).
- The total FY '10 budget is approximately 4.3% (\$767,009) lower than FY '09 reflecting a decrease of \$52,006 (-.052%) in total assessment to the towns.
- The district's share of the building project (\$9,767,000) is permanently bonded and those costs will be reflected in the Non-Discretionary budget to the towns.
- The minimum contributions component of town assessments established by the Commonwealth of Massachusetts are expected to increase by approximately 3.8% providing an additional \$213,355 of assessment revenues.
- The District's proposed FY 2010 operating budget is requesting \$2,168,537 of town assessments above the minimum contribution amounts established by the Commonwealth.
- The District will be using \$353,235 out of excess and deficiency to reduce town assessments.
- District foundation enrollment has decreased by 35 students.

REQUESTS FOR INFORMATION

The financial report is designed to provide a general overview of the District's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Business Manager, Gateway Regional School District, 12 Littleville Road, Huntington, MA 01050.

EXHIBIT A**GATEWAY REGIONAL SCHOOL DISTRICT****GOVERNMENT-WIDE****STATEMENT OF NET ASSETS****JUNE 30, 2009**

	Govern- mental Activities	Business- Type Activities Laptop Program	Totals
Assets:			
Pooled cash	2,349,247	54,412	2,403,659
Due from other governments	161,972	-	161,972
Notes receivable - current	-	2,800	2,800
Inventory	5,446	-	5,446
Capital assets - net of accumulated depreciation	38,691,504	-	38,691,504
Total assets	41,208,169	57,212	41,265,381
Liabilities:			
Current unamortized premium from bond issuance	683	-	683
Current portion of bonds payable	440,000	-	440,000
Current portion of notes payable	2,800	-	2,800
Current portion of early retirement liability	7,955	-	7,955
Current portion of capital lease obligations	7,024	61	7,085
Current portion of compensated absences	37,238	-	37,238
Accrued interest payable	166,364	-	166,364
Accrued payroll	2,576	-	2,576
Payroll withholdings	136,541	-	136,541
Bond anticipation notes	114,000	-	114,000
Other post-employment benefit obligation	840,327	-	840,327
Noncurrent unamortized premium from bond issuance ..	10,245	-	10,245
Noncurrent portion of bonds payable	7,815,000	-	7,815,000
Noncurrent portion of capital lease obligations	8,672	-	8,672
Noncurrent portion of compensated absences	437,000	-	437,000
Total liabilities	10,026,425	61	10,026,486
Net assets:			
Invested in capital assets, net of related debt	30,306,808	-	30,306,808
Restricted	1,109,340	-	1,109,340
Unrestricted	(234,404)	57,151	(177,253)
Total net assets	31,181,744	57,151	31,238,895

See accompanying notes to the basic financial statements.

GATEWAY REGIONAL SCHOOL DISTRICT
GOVERNMENT-WIDE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2009

Functions/Programs	Expenses for all Functions and Programs	Program Revenues					Net (Expenses) Revenues and Changes in Net Assets		
		Charges for Services	Member Town Assessments	Investment Income	Other	Operating Grants and Contributions	Govern- mental Activities	Business- Type Activities	Totals
Governmental activities:									
Administration	926,049	-	-	-	-	-	(926,049)	-	(926,049)
Instruction	10,520,523	5,018	-	-	31,364	2,663,441	(7,820,700)	-	(7,820,700)
Ancillary school services	1,125,161	294,057	-	-	6,224	310,497	(514,383)	-	(514,383)
Transportation	1,539,006	-	557,559	141	-	993,169	11,863	-	11,863
Maintenance and operations	1,530,297	27,199	-	-	11,896	-	(1,491,202)	-	(1,491,202)
Insurance and employee benefits	4,866,757	-	-	-	-	2,322,864	(2,543,893)	-	(2,543,893)
Programs with other schools	1,177,851	-	-	-	-	-	(1,177,851)	-	(1,177,851)
Capital improvements	7,363	-	-	-	-	-	(7,363)	-	(7,363)
Unallocated depreciation (*)	983,256	-	-	-	-	-	(983,256)	-	(983,256)
Principal associated with renovation bonds	-	-	425,000	-	-	-	425,000	-	425,000
Interest associated with renovation bonds	359,081	-	364,095	-	-	-	5,014	-	5,014
Interest associated with bans	6,700	-	6,700	-	-	-	-	-	-
Total governmental activities	23,042,044	326,274	1,353,354	141	49,484	6,289,971	(15,022,820)	-	(15,022,820)
Business-type activity - laptop program	32,165	28,551	-	1,276	-	-	-	(2,338)	(2,338)
Totals	23,074,209	354,825	1,353,354	1,417	49,484	6,289,971	(15,022,820)	(2,338)	(15,025,158)
General revenues:									
Assessments to member towns							8,668,741	-	8,668,741
State and federal aid not restricted to specific purposes							5,356,783	-	5,356,783
Miscellaneous							53,787	-	53,787
Investment income							44,369	-	44,369
Total general revenues							14,123,680	-	14,123,680
Changes in net assets							(899,140)	(2,338)	(901,478)
Net assets - beginning of the year							32,080,884	59,489	32,140,373
Net assets - end of the year							31,181,744	57,151	31,238,895

(*) - This line item excludes depreciation expensed directly to various programs totaling \$448,724. (\$983,256 + \$448,724 = \$1,431,980 total depreciation expense)

See accompanying notes to the basic financial statements.

GATEWAY REGIONAL SCHOOL DISTRICT
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2009

	General Fund	Debt Service Fund	Other Nonmajor Governmental Fund	Total Governmental Funds
Assets				
Pooled cash	1,396,397	13,118	939,732	2,349,247
Due from other governments	-	-	161,972	161,972
Inventory	-	-	5,446	5,446
Total assets	<u>1,396,397</u>	<u>13,118</u>	<u>1,107,150</u>	<u>2,516,665</u>
Liabilities and fund balances				
Liabilities:				
Payroll withholdings	136,541	-	-	136,541
Accrued payroll	2,576	-	-	2,576
Compensated absences	37,238	-	-	37,238
Bond anticipation notes	-	-	114,000	114,000
Total liabilities	<u>176,355</u>	<u>-</u>	<u>114,000</u>	<u>290,355</u>
Fund balances:				
Reserved for inventory	-	-	5,446	5,446
Reserved for debt service	-	13,118	-	13,118
Reserved for designated expenditures	-	-	844,855	844,855
Reserved to reduce subsequent years' assessments	353,235	-	142,849	496,084
Unreserved - available for appropriation	866,807	-	-	866,807
Total fund balances	<u>1,220,042</u>	<u>13,118</u>	<u>993,150</u>	<u>2,226,310</u>
Total liabilities and fund balances	<u>1,396,397</u>	<u>13,118</u>	<u>1,107,150</u>	
Reconciliation to government-wide statement of net assets:				
Amounts reported for governmental activities in the statement of net assets are different because:				
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds statement:				
Gross capital assets			51,260,237	
Less: Accumulated depreciation			(12,568,733)	
Subtotal				38,691,504
Long-term liabilities, including early retirement, capital lease obligations and compensated absences, are not due and payable in the current period and therefore are not reported in the governmental funds statement:				
Bonds payable			(8,255,000)	
Other post-employment benefits obligation			(840,327)	
Premiums from the issuance of bonds			(10,928)	
Compensated absences			(437,000)	
Capital lease obligations			(18,496)	
Early retirement obligations			(7,955)	
Subtotal				(9,569,706)
Accrued interest payable is not due in the current period and therefore is not reported in the governmental funds statements				
				(166,364)
Net assets (Exhibit A)				<u>31,181,744</u>

See accompanying notes to the basic financial statements.

EXHIBIT D

GATEWAY REGIONAL SCHOOL
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2009

	General Fund	Debt Service Fund	State Payments On-behalf of Teacher Retirement Fund	Other Nonmajor Governmental Fund	Total Governmental Funds
Revenues:					
Town assessments	10,022,095	-	-	-	10,022,095
Intergovernmental	6,506,270	-	2,322,864	2,817,620	11,646,754
Investment income	43,686	-	-	141	43,827
Fees and charges for services	-	-	-	326,274	326,274
Other revenues	53,787	-	-	49,484	103,271
Total revenues	16,625,838	-	2,322,864	3,193,519	22,142,221
Other financing sources:					
Transfers from the general fund	-	-	-	57,000	57,000
Transfers from debt service fund	1,035	-	-	-	1,035
Transfers from other nonmajor funds	170,533	-	-	-	170,533
Total other financing sources	171,568	-	-	57,000	228,568
Total revenues and other financing sources	16,797,406	-	2,322,864	3,250,519	22,370,789
Expenditures:					
Current:					
Administration	826,939	-	-	-	826,939
Instruction	7,512,471	-	-	2,074,376	9,586,847
Ancillary school services	575,069	-	-	474,478	1,049,547
Transportation	1,539,006	-	-	-	1,539,006
Maintenance and operations	1,649,522	-	-	1,008	1,650,530
Insurance and employee benefits	2,543,893	-	2,322,864	-	4,866,757
Programs with other schools	1,177,851	-	-	-	1,177,851
Capital improvements	7,363	-	-	-	7,363
Debt Service:					
Principal payments associated with bonds	425,000	-	-	-	425,000
Interest associated with long-term debt	364,095	-	-	-	364,095
Interest associated with bond anticipation notes	6,700	-	-	-	6,700
Total expenditures	16,627,909	-	2,322,864	2,549,862	21,500,635
Other financing uses:					
Transfers to the general fund	-	1,035	-	170,533	171,568
Transfers to nonmajor school roof fund	57,000	-	-	-	57,000
Total other financing uses	57,000	1,035	-	170,533	228,568
Total expenditures and other financing uses	16,684,909	1,035	2,322,864	2,720,395	21,729,203
Net changes in fund balances	112,497	(1,035)	-	530,124	641,586
Fund balance - beginning of the year	1,107,545	14,153	-	463,026	
Fund balance - end of the year	1,220,042	13,118	-	993,150	
Reconciliation of the statement of revenues, expenditures, and changes in fund balances to the statement of activities (See footnote 2 for additional information):					
Capital outlays net of depreciation expense					(1,185,181)
Net change in certain accrued liabilities					(356,228)
Capital lease obligation proceeds and amortization of bond premiums					683
Change in net assets of the government-wide statement of activities (Exhibit B)					(899,140)

See accompanying notes to the basic financial statements.

EXHIBIT E

GATEWAY REGIONAL SCHOOL DISTRICT
GENERAL FUND - STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE, BUDGET AND ACTUAL (BUDGETARY BASIS)
FOR THE YEAR ENDED JUNE 30, 2009

	Original Budget	Revised Budget	Actual	Over/ (Under) Budget
Revenues - budgetary basis:				
Town assessments:				
Blandford	1,571,608	1,571,608	1,571,608	-
Chester	1,563,372	1,563,372	1,563,372	-
Huntington	2,187,948	2,187,948	2,187,948	-
Middlefield	553,235	553,235	553,235	-
Montgomery	979,012	979,012	979,012	-
Russell	1,711,745	1,711,745	1,711,745	-
Worthington	1,455,175	1,455,175	1,455,175	-
Total town assessments	10,022,095	10,022,095	10,022,095	-
Commonwealth of Massachusetts - state aid:				
Chapter 70	5,986,331	5,986,331	5,356,783	(629,548)
Transportation	1,201,726	1,201,726	993,169	(208,557)
Medicaid	100,000	100,000	156,318	56,318
Total Commonwealth of Massachusetts - state aid	7,288,057	7,288,057	6,506,270	(781,787)
Miscellaneous:				
Investment income	50,000	50,000	43,686	(6,314)
Other	-	-	53,787	53,787
Total miscellaneous	50,000	50,000	97,473	47,473
Total revenues	17,360,152	17,360,152	16,625,838	(734,314)
Other financing sources:				
Transfers from beginning fund balance	231,250	231,250	231,250	-
Transfers from building construction & renovation fund	5,083	5,083	5,083	-
Transfers from maturing debt revolving fund	1,035	1,035	1,035	-
Transfers from school choice revolving fund	256,000	256,000	138,159	(117,841)
Transfers from head start revolving fund	17,000	17,000	17,000	-
Transfers from parking fees revolving fund	12,000	12,000	10,291	(1,709)
Total other financing sources	522,368	522,368	402,818	(119,550)
Total revenues and other financing sources - budgetary basis	17,882,520	17,882,520	17,028,656	(853,864)
Expenditures - budgetary basis:				
Current:				
Administration	823,094	823,094	826,939	3,845
Instruction	8,287,718	8,287,718	7,512,471	(775,247)
Ancillary school services	544,337	544,337	575,069	30,732
Transportation	1,759,285	1,759,285	1,539,006	(220,279)
Operations and maintenance	1,708,279	1,708,279	1,649,522	(58,757)
Fixed charges	2,796,396	2,796,396	2,543,893	(252,503)
Programs with other schools	1,103,246	1,103,246	1,177,851	74,605
Total current	17,022,355	17,022,355	15,824,751	(1,197,604)
Capital improvements	7,370	7,370	7,363	(7)
Debt service:				
Principal - construction and renovation obligations	425,000	425,000	425,000	-
Interest - construction and renovation obligations	364,095	364,095	364,095	-
Interest - bond anticipation notes	6,700	6,700	6,700	-
Total debt service	795,795	795,795	795,795	-
Total expenditures - budgetary basis	17,825,520	17,825,520	16,627,909	(1,197,611)
Other financing uses - transfers to roof repair fund	57,000	57,000	57,000	-
Total expenditures and other financing uses - budgetary basis	17,882,520	17,882,520	16,684,909	(1,197,611)
Net changes in fund balance	-	-	343,747	343,747

Reconciliation of GAAP basis to budgetary basis:

Description	(See Exhibit D) Transfers From		
	GAAP Basis	Beginning Fund Balance	Budgetary Basis
Revenues and other financing sources	16,797,406	231,250	17,028,656
Expenditures and other financing uses	16,684,909	-	16,684,909
Net changes in fund balance	112,497	231,250	343,747

See accompanying notes to the basic financial statements.

EXHIBIT F

GATEWAY REGIONAL SCHOOL DISTRICT
BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUND
STATEMENT OF NET ASSETS
JUNE 30, 2009

	<u>Laptop Program</u>
Assets:	
Pooled cash	54,412
Notes receivable - governmental activities.	<u>2,800</u>
Total assets	57,212
 Liabilities - capital lease obligations	 <u>61</u>
 Net assets - reserved to reduce subsequent year's assessments	 <u><u>57,151</u></u>

See accompanying notes to the basic financial statements.

EXHIBIT G

GATEWAY REGIONAL SCHOOL DISTRICT
BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUND
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
JUNE 30, 2009

	Laptop Program
Operating revenues - charges for sales and services laptop fees	28,551
Operating expenses - charges by ancillary suppliers	30,889
Operating loss	<u>(2,338)</u>
Nonoperating revenues (expenses):	
Interest income	1,276
Interest expense	<u>(1,276)</u>
Total nonoperating revenues (expense)	<u>-</u>
Change in net assets	<u>(2,338)</u>
Total net assets - beginning of the year	<u>59,489</u>
Total net assets - end of the year	<u><u>57,151</u></u>

See accompanying notes to the basic financial statements.

EXHIBIT H

GATEWAY REGIONAL SCHOOL DISTRICT
BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUND
STATEMENT OF CASH FLOWS
JUNE 30, 2009

	Laptop Program
Cash flows from operating activities:	
Cash received from users	61,122
Cash paid to suppliers	30,889
Net cash provided from operating activities	<u>30,233</u>
Cash flows from capital and related financing activities:	
Principal paid on capital lease obligations	(27,500)
Interest paid on capital lease obligations	(1,276)
Net cash used by capital and related financing activities	<u>(28,776)</u>
Cash flows from investing activities - interest received on notes receivable	<u>1,276</u>
Net decrease in pooled cash	2,733
Pooled cash - beginning of the year	51,679
Pooled cash - end of the year	<u><u>54,412</u></u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating loss	(2,338)
Reconciling adjustments - decrease in notes receivable	32,571
Net cash provided by operating activities	<u><u>30,233</u></u>

See accompanying notes to the basic financial statements.

EXHIBIT I

GATEWAY REGIONAL SCHOOL DISTRICT
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2009

	Private- Purpose Trust Expendable Scholarship Funds	Agency Student Activities Funds	Totals
Assets			
Pooled cash.	17,222	59,481	76,703
Liabilities			
Due to students	-	59,481	59,481
Accounts payable	16,700	-	16,700
Total liabilities	16,700	59,481	76,181
Net assets - held in trust for scholarships	522	-	522

See accompanying notes to the basic financial statements.

**EXHIBIT J**

GATEWAY REGIONAL SCHOOL DISTRICT
FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2009

	Private- Purpose Trust Expendable Scholarship Funds
Additions:	
Donations	14,510
Interest	83
Total additions	14,593
Deductions - scholarships	16,700
Change in net assets	(2,107)
Net assets - beginning of the year	2,629
Net assets - end of the year	522

See accompanying notes to the basic financial statements.

GATEWAY REGIONAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting entity

The Gateway Regional School District (the District) is comprised of the Towns of Blandford, Chester, Huntington, Middlefield, Montgomery, Russell, and Worthington. The District operates under a regional agreement established in 1957, and serves the educational needs of students in grades PreK through 12.

The form of government is an elected seventeen-member school committee, which is responsible for appointing a Superintendent who is the chief operating official for the District.

The District presently operates six school buildings, three of which are owned by the individual Towns and leased, at \$1 each, to the District which pays all operating costs. These three schools are located in the Towns of Blandford, Russell, and Worthington. The District owns the two elementary schools in Chester and Huntington, as well as the middle/high school, which is located in the Town of Huntington. The District is responsible for both the operating and capital costs related to the schools it owns.

The accounting policies of the District conform to generally accepted accounting principles (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the more significant policies.

As required by generally accepted accounting principles, these financial statements present the District and its component units, entities for which the District is considered to be financially accountable. Blended component units, although legally separate entities are, in substance, part of the government's operations and so data from these units are combined with data of the primary government. Each discretely presented component unit (if any), on the other hand, is reported in a separate column in the government-wide financial statements to emphasize it is legally separate from the District. Any blended or discretely presented component unit present has a June 30 year-end. Based upon the foregoing criteria, the District has no component units that would require either blended or discrete presentation in these basic financial statements.

B. Basis of presentation

Government-wide financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by assessments and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

GATEWAY REGIONAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of presentation (continued)

Government-wide financial statements (continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Assessments and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Fund financial statements

Fund financial statements of the District are organized into funds each of which are considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts, which constitute its assets, liabilities, fund equity, revenues, and expenditures.

Funds are organized as major fund or non-major funds within the governmental statements because emphasis is placed on major funds within the governmental category. A fund is considered major if it is the primary operating fund of the District or meets the following criteria:

- a. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding element total (assets, liabilities, etc.) for all funds of that category or type (that is, total governmental or total enterprise funds), and
- b. The same element that met the 10 percent total in (a), is at least 5 percent of the corresponding element total for all governmental and enterprise funds combined.

In addition, any other governmental or enterprise fund that the District believes is particularly important to financial statement users may be reported as a major fund.

**GATEWAY REGIONAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of presentation (continued)

Governmental activities

Governmental funds are identified as either general, special revenue, debt service, or capital projects funds based upon the following guidelines.

General fund – is the general operating fund of the District and is always classified as a major fund. It is used to account for all financial resources except those required to be accounted for in another fund.

Special revenue funds – are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes.

Debt service funds – are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Capital project funds – are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds).

Business-type activities

Business-type activities are comprised of proprietary-type enterprise funds or internal service funds. The District has a laptop program enterprise fund in which laptops are obtained from vendors via capital lease obligations and sold to students via notes receivable.

Fiduciary funds (not included in government-wide statements)

Fiduciary funds are identified as either private-purpose trust funds or agency funds based upon the following guidelines.

Private-purpose trust funds – are used to account for resources legally held in trust for scholarship payments.

Agency funds – are used to account for assets held by the District as an agent for individuals, private organizations, and/or other governmental units.

GATEWAY REGIONAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of presentation (continued)

Major Funds

The District reports the following as major funds.

- General fund
- Debt service fund
- State payments on-behalf of teacher retirement fund
- Enterprise fund – laptop program

Nonmajor funds

The District reports the following nonmajor funds.

Special revenue funds:

 All revolving funds

 All federal, state, and other grant funds

Capital project funds:

 School roof fund

 School buildings construction and renovation fund

Fiduciary funds

The District reports the following fiduciary funds.

Private-purpose trust funds:

 Scholarship trust funds

Agency funds:

 Student activities funds

GATEWAY REGIONAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of accounting

Government-wide financial statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred or an economic asset used, regardless of the timing of related cash flows. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided including specific member town assessments, 2) operating grants and contributions, and 3) capital grants and contributions. Revenues not classified as program revenues (e.g. general member town assessments) are presented as general revenues.

When both restricted and unrestricted resources are available for use, except in the case of debt service, it is the District's policy to generally use restricted resources first, then unrestricted resources as they are needed.

Fund financial statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The annual assessments to the District's member towns for operating and capital costs, state aid to the District attributable to the general fund and various inter-governmental revenues attributable to the special revenue or capital project funds, and interest income as earned, comprise the significant revenues susceptible to accrual. Charges for tuition, contributions, gifts, and other miscellaneous revenues are recorded as revenues when received because they are generally not measurable until actually received.

GATEWAY REGIONAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of accounting (continued)

Fund financial statements

State, general and categorical grants and other entitlements are recognized as revenue in the period the District is entitled to the resources and the amounts are available. Expenditure-driven programs currently reimbursable are recognized as revenue when the qualifying expenditures have been incurred and the amounts are available. Amounts owed to the District which are not available are recorded as receivables and deferred revenue. Amounts received prior to the entitlement period are also recorded as deferred revenue.

Encumbrance accounting, under which purchase orders, contracts and other commitments for expenditure of funds are recorded in order to reserve that portion of the applicable appropriation, is employed in the governmental funds. Under generally accepted accounting principles, encumbrances outstanding at year end lapse and are reported as reservations of fund balances since they do not constitute expenditures or liabilities.

The fiduciary fund financial statements and the proprietary-type enterprise fund use the accrual method of accounting.

Operating income reported in the proprietary-type fund financial statements includes revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for proprietary-type funds are charges to customers for sales or services. Principal operating expenses are the costs of providing goods or services and include administrative and depreciation of capital assets expenses (if any). Other revenues and expenses are classified as non-operating in the financial statements.

D. Measurement focus

The government-wide financial statements governmental activities and business-type activities, and the fiduciary fund statement activities are presented using the economic resources measurement focus. Under this concept, revenues and expenses are matched using the accrual basis of accounting.

GATEWAY REGIONAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Measurement focus (continued)

The measurement focus of all governmental funds is the flow of current financial resources concept. Under this concept, sources and uses of financial resources, including capital outlays, debt proceeds and debt retirements are reflected in operations. Resources not available to finance expenditures and commitments of the current period are recognized as deferred revenue or a reservation of fund equity. Liabilities for claims, judgments, compensated absences and pension contributions, which will not be currently liquidated using expendable available financial resources, are included as liabilities in the government-wide financial statements but are excluded from the governmental fund financial statements. The related expenditures are recognized in the governmental fund financial statements when the liabilities are liquidated.

E. Assets, liabilities, and net assets or equity

1. Deposits

Generally, the District's Treasurer is authorized to invest in the following investments: term deposits or certificates of deposit, trust companies, national banks, savings banks or banking companies, or obligations issued or unconditionally guaranteed by the United States government or an agency thereof and having a maturity from date of purchase of one year or less, with certain other limitations.

2. Receivables and payables

Receivables from other governments (i.e., the Commonwealth of Massachusetts and its political subdivisions) are reported as "due from other governments".

3. Inventories and prepaid assets

Inventories, if any, are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors, if any, that reflect costs applicable to future accounting periods are recorded as prepaid items in both government-wide and fund financial statements.

GATEWAY REGIONAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Assets, liabilities, and net assets or equity (continued)

4. Capital assets

Government-wide financial statements

Capital assets, which include construction in progress, buildings, machinery and equipment, computers, and vehicles, are reported in the applicable governmental or business type activities, if any, columns in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Significant donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized.

Major outlays for capital assets and improvements, for which the District has title are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities (if any) is included as part of the capitalized value of the assets constructed.

Property, plant, and equipment of the District are depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Buildings	50
Leasehold improvements	50
Machinery and equipment	5 - 15
Furniture and fixtures	5 - 15
Vehicles	5
Computer equipment	3 - 5

Fund financial statements

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Fixed assets are not capitalized and related depreciation is not reported in the government fund financial statements. However, fixed assets are capitalized and related depreciation is reported in the proprietary-type fund financial statements if these items are considered material.

GATEWAY REGIONAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Assets, liabilities, and net assets or equity (continued)

5. Long-term obligations

In the government-wide and proprietary-type financial statements long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

6. Compensated absences

It is the District's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. All vacation and sick pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirement.

7. Fund equity

Government-wide financial statements

Equity is classified as net assets and displayed in three components:

Invested in capital assets, net of related debt – consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of invested in capital assets, net of related debt.

Restricted net assets – consists of net assets with constraints placed on the use either by 1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments or, 2) law through constitutional provisions or enabling legislation.

Unrestricted net assets – consists of all other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

GATEWAY REGIONAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Assets, liabilities, and net assets or equity (continued)

7. Equity (continued)

Fund financial statements

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Any designations of fund balance represent tentative management plans that are subject to change.

Descriptions of the various reservations and designations of the District's fund balance accounts, as are follows.

Reserved for inventory - to segregate the portion of fund balance associated with the inventory in the special revenue funds.

Reserved for debt service - to segregate a portion of fund balance representing net assets to finance the retirement of debt in future years. The \$14,153 fund balance at year-end was generated from premiums associated with the issuance of bond anticipation notes for the school renovation projects.

Reserved for designated expenditures - to segregate a portion of fund balance representing net assets that has been authorized for specific projects.

Reserved to reduce subsequent years' assessments - to segregate a portion of fund balance designated to reduce assessments to member towns in future fiscal years.

8. Economic dependency and use of estimates

The District provides education to the children of the Towns of Blandford, Chester, Huntington, Middlefield, Montgomery, Russell, and Worthington. It receives a substantial portion of its revenues from these towns, as well as from the Commonwealth of Massachusetts, and as such, is dependent on the economic environment of these towns and the Commonwealth.

The preparation of basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the basic financial statements and accompanying notes. Actual results may differ from those estimates.

GATEWAY REGIONAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009

2. RECONCILIATION OF GOVERNMENT-WIDE AND GOVERNMENTAL FUND FINANCIAL STATEMENTS

A. Explanation of differences between the net changes in fund balances for governmental funds (Exhibit D) and the change in net assets of the government-wide statement of activities (Exhibit B)

The reconciliation between net changes in fund balances reported in the governmental funds statement of revenues, expenditures, and changes in fund balances (Exhibit D) and the change in net assets of the government-wide statement of activities (Exhibit B) is explained below.

Net changes in fund balances - total governmental funds (Exhibit D) \$ 641,586

Amounts reported for governmental activities in the government-wide statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the government-wide statement of activities, the cost of those assets are allocated over their estimated useful lives as depreciation expense. The components of this reconciling item are:

Additions to fixed assets	246,799	
Depreciation expense	(1,431,980)	
Totals		(1,185,181)

Changes in the balance of accrued liabilities from the beginning to the end of the year in the government-wide financial statements that do not affect expenditures in the governmental funds financial statements. The components of this reconciling item are:

Payment of principal associated with outstanding bonds payable	425,000	
Increase in other post-employment benefit obligation	(840,327)	
Increase in compensated absence accrual	(36,000)	
Decrease in early retirement obligations accrual	7,365	
Payment of capital lease obligations	82,720	
Decrease in interest payable accrual	5,014	
Totals		(356,228)

The issuance of bonds provides current financial resources to governmental funds, but has no effect on net assets. Also, governmental funds report the effect of premiums when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The components of this reconciling item are:

Amortization of premiums associated with the issuance of bonds	683	
--	-----	--

Change in net assets of the government-side statement of activities (Exhibit B) \$ (899,140)

GATEWAY REGIONAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009

3. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary information

The annual budget for the general fund is adopted on a basis consistent with generally accepted accounting principles. All annual appropriations lapse at fiscal year end. Capital project and certain special revenue funds adopt project-length and grant-length budgets, respectively.

The School Committee authorizes capital project funds' expenditures. Capital appropriations do not lapse until the purpose for which they are designated is completed. Expenditures in excess of adopted budgets can be made only upon the authority of a supplemental appropriation or an approved budgetary transfer.

The District follows these procedures, in establishing the budgetary data for the general fund.

- A proposed annual budget, including capital costs, is prepared by the Superintendent for adoption by the School Committee. The annual budget includes proposed expenditures and the means of financing them.
- Public hearings are conducted in the District to obtain taxpayer comments from the member towns.
- In accordance with the District Agreement, the School Committee adopts a final budget no later than 45 days prior to the earliest scheduled town meeting, but no later than March 15.
- The final budget, divided between operating costs and capital costs, is then apportioned among the member towns based upon state mandated minimum contribution requirements and various student enrollment data. The apportioned amount for each member town must be certified by the District's Treasurer to each of the Treasurers of the member towns within 30 days from the date on which the annual budget was adopted by the School Committee.
- Each member town includes its share of the regional school assessment with all other proposed appropriations for town meeting approval.
- The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the total annual budget.

Assessments are levied annually against the seven member towns of the District for the fiscal year beginning July 1, and are due and payable in four installments by August 1, November 1, February 1, and April 1 for 20%, 30%, 20% and 30%, respectively.

Capital costs, as defined in the District's Regional Agreement, generally relate to costs incurred to construct or improve school plant operations. If debt was incurred to pay for these costs, capital costs will include payment for principal and interest on such debt. Debt and capital costs are assessed to member towns based on their student enrollment as of March 1st of the preceding fiscal year.

GATEWAY REGIONAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009

3. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (continued)

A. Budgetary information (continued)

Operating costs include all other expenses not listed as capital costs, as well as interest on temporary notes issued by the District in anticipation of revenue. Current year's operating costs are apportioned to member towns on the basis of their student enrollment as of March 1st of the preceding fiscal year, in conjunction with the minimum contribution requirement dictated by the Education Reform Act.

Encumbrance accounting, under which purchase orders, contracts and other commitments are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of the formal budgetary process.

Encumbrances outstanding at year-end represent the estimated amount of expenditures ultimately to result if outstanding purchase orders at year-end are filled and if contracts in progress at year-end are completed. For GAAP purposes, encumbrances outstanding at year-end do not constitute expenditures or liabilities and, therefore, are presented in the combined financial statements as a component of fund equity - reserved for encumbrances. As of June 30, 2009 the general fund had no outstanding encumbrances.

B. Excess of expenditures over appropriations

During the current fiscal year, the District's total general fund expenditures did not exceed appropriations.

C. Deficit fund equity

As of June 30, 2009, the School Roof Repair Fund (a nonmajor governmental fund) had a deficit balance of \$114,000. This deficit fund balance results from the accounting convention of recognizing revenue associated with debt only upon the issuance of permanent financing. As of June 30, 2009, bond anticipation notes (temporary debt) of \$114,000 have been issued to finance the roof repair project. This deficit should be eliminated in subsequent years with financing from the general fund.

GATEWAY REGIONAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009

4. DETAILED NOTES ON ALL FUNDS

A. Pooled cash and bank deposits

The District has a central treasury function controlled by the District's Treasurer. Therefore, there is one "pool" of cash, composed of various bank accounts (rather than separate cash accounts for each fund). Each fund reports the amount due from or to the central treasury as "pooled cash".

Custodial credit risk for deposits is the risk that, in the event of failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The District has no formal policy to limit custodial risk.

The amount of bank deposits reported as "pooled cash" is summarized below.

	Exhibit C Governmental Funds	Exhibit F Enterprise Fund	Exhibit I Fiduciary Funds	Totals
Insured (FDIC)	\$ 115,331	\$ 54,412	\$ 80,257	\$ 250,000
Collateralized	810,506	-	-	810,506
Investments with Massachusetts Municipal Depository Trust ...	2,325,156	-	-	2,325,156
Total deposits and cash equivalents in institutions	3,250,993	54,412	80,257	3,385,662
Various reconciling items	(901,746)	-	(3,554)	(905,300)
Total cash	\$ 2,349,247	\$ 54,412	\$ 76,703	\$ 2,480,362

GATEWAY REGIONAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009

4. DETAILED NOTES ON ALL FUNDS (continued)

B. Receivables

Receivables as of year-end are reported in the District's financial statements as follows.

Description	Exhibit F		Exhibit C		Exhibit A	
	Fund Financial Statements		Other		Government	
	Enterprise		Nonmajor		Wide	
	Fund		Funds		Financial	
					Statements	
Intergovernmental receivables:						
Circuit breaker - state department of education	\$	-	\$	76,555	\$	76,555
Teaching American history - federal department of education		-		36,221		36,221
Community partnership - state department of education		-		33,445		33,445
Food services fund - state department of education		-		15,401		15,401
School to work - city of Westfield		-		350		350
Total - intergovernmental receivables.	\$	-	\$	161,972	\$	161,972
Current notes receivable - governmental activities	\$	2,800	\$	-	\$	2,800

GATEWAY REGIONAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009

4. DETAILED NOTES ON ALL FUNDS (continued)

C. Capital Assets

Asset recognition

The District's capital asset activity for the year ended June 30, 2009 was as follows.

Description	Beginning Balance	Increase	Ending Balance
Capital assets, not being depreciated:			
Land	\$ 17,250	\$ -	\$ 17,250
Capital assets, being depreciated:			
Buildings	38,741,947	-	38,741,947
Leasehold improvements	7,957,044		7,957,044
Computers	1,811,034	217,395	2,028,429
Machinery and equipment	225,479	29,404	254,883
Furniture and fixtures	2,178,640	-	2,178,640
Vehicles	82,044	-	82,044
Total capital assets, being depreciated:	50,996,188	246,799	51,242,987
Total capital assets, gross	51,013,438	246,799	51,260,237
Less accumulated depreciation for:			
Buildings	(6,639,475)	(774,839)	(7,414,314)
Leasehold improvements	(716,134)	(159,141)	(875,275)
Computers	(1,621,493)	(227,083)	(1,848,576)
Machinery and equipment	(173,539)	(36,481)	(210,020)
Furniture and fixtures	(1,931,755)	(220,776)	(2,152,531)
Vehicles	(54,357)	(13,660)	(68,017)
Total accumulated depreciation	(11,136,753)	(1,431,980)	(12,568,733)
Total capital assets, net	\$ 39,876,685	\$ (1,185,181)	\$ 38,691,504

GATEWAY REGIONAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009

4. DETAILED NOTES ON ALL FUNDS (continued)

C. Capital Assets (continued)

Depreciation expense was charged to functions / programs of the District as follows.

Description	Balance
Administration	\$ 46,119
Instruction	371,205
Ancillary school services	10,599
Maintenance and operations	20,801
Subtotal	448,724
Unallocated	983,256
Total depreciation expense	<u>\$ 1,431,980</u>

D. Interfund transfers

Generally, interfund transfers result from the adoption of the annual budget appropriation to finance specific operations or to reserve assets for specific purposes in future years. The composition of interfund transfers for the fiscal year ended June 30, 2009, is as follow:

Transfers Out Of The:	Transfers In To The:	
	General Fund	Roof Repair Fund
Nonmajor Special Revenue Funds:		
School choice revolving	\$ 138,159	\$ -
Head start revolving	17,000	-
Parking fees revolving	10,291	-
Subtotals	165,450	-
Buildings construction and renovations fund	5,083	-
Subtotals	170,533	-
Debt service fund	1,035	-
General fund	-	57,000
Totals	<u>\$ 171,568</u>	<u>\$ 57,000</u>

GATEWAY REGIONAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009

4. DETAILED NOTES ON ALL FUNDS (continued)

E. Short-term debt

A schedule of changes to bond anticipation notes for the year ended June 30, 2009 is presented below.

	Date Issued	Maturity Date	Interest Rate	Balance June 30 08	Additions	Reductions	Balance Jun 30 09	Interest Expense
Capital Project Funds:								
Roof repair .	07/20/07	07/18/08	3.94%	\$ 171,000	\$ -	\$ 171,000	\$ -	\$ 6,700
Roof repair .	07/19/08	07/18/09	2.44%	-	114,000	-	114,000	-
Totals				\$ 171,000	\$ 114,000	\$ 171,000	\$ 114,000	\$ 6,700

F. Long-term debt

Changes in long-term liabilities – governmental activities

Long-term liability activity for the year ended June 30, 2009, was as follows:

	Beginning			Ending	Due Within	Due After	FY 2009
Description	Balance	Additions	Reductions	Balance	One Year	One Year	Interest Expense
Bonds payable	\$ 8,680,000	\$ -	\$ 425,000	\$ 8,255,000	\$ 440,000	\$ 7,815,000	\$ 364,095
Compensated absences	461,187	73,238	60,187	474,238	37,238	437,000	-
Capital lease obligations	96,177	-	80,481	15,696	7,024	8,672	4,691
Notes payable laptop program .	5,039	-	2,239	2,800	2,800	-	1,276
Early retirement liability	15,320	-	7,365	7,955	7,955	-	1,226
Unamortized bond premium ...	11,611	-	683	10,928	683	10,245	-
Total long-term liabilities	\$ 9,269,334	\$ 73,238	\$ 575,955	\$ 8,766,617	\$ 495,700	\$ 8,270,917	\$ 371,288

As in prior years, the general operating fund's assets were used in fiscal 2009 to pay current compensated absence, capital lease obligations, and early retirement liabilities.

The District has a lease agreement to finance the acquisition of computers & copiers, and a lease agreement to finance the purchase of a truck. These lease agreements qualify as capital leases for accounting purposes (title transfers at the end of the lease term) and, therefore, have been recorded as liabilities at the present value of the future minimum lease payments. The acquisition cost of the computers & copiers, and the truck, \$297,418 and \$62,649, respectively, have been capitalized as fixed assets and are being depreciated over their useful life.

GATEWAY REGIONAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009

4. DETAILED NOTES ON ALL FUNDS (continued)

F. Long-term debt (continued)

Debt service payments – governmental activities

The following is a schedule of long-term debt maturities associated with the bonds payable as of June 30, 2009.

Fiscal Year	Principal	Interest	Total
2010.....	\$ 440,000	\$ 350,110	\$ 790,110
2011.....	450,000	334,738	784,738
2012.....	460,000	319,040	779,040
2013.....	475,000	301,997	776,997
2014.....	485,000	283,324	768,324
2015.....	500,000	258,944	758,944
2016.....	515,000	233,781	748,781
2017.....	525,000	207,925	732,925
2018.....	540,000	181,375	721,375
2019.....	555,000	158,875	713,875
2020.....	505,000	137,425	642,425
2021.....	525,000	117,225	642,225
2022.....	540,000	96,225	636,225
2023.....	560,000	73,950	633,950
2024.....	580,000	50,150	630,150
2025.....	600,000	25,500	625,500
Total.....	\$ 8,255,000	\$ 3,130,584	\$ 11,385,584

The following is a schedule of long-term debt maturities associated with capital lease obligations, notes payable, and early retirement liabilities as of June 30, 2009

Fiscal Year	Capital Lease Obligations Payable to Vendors			Notes Payable to Laptop Program Enterprise Fund			Early Retirement Liabilities		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2010.....	\$ 7,024	\$ 854	\$ 7,878	\$ 2,800	\$ 180	\$ 2,980	\$ 7,955	\$ 636	\$ 8,591
2011.....	6,877	388	7,265	-	-	-	-	-	-
2012.....	1,795	21	1,816	-	-	-	-	-	-
Total.....	\$ 15,696	\$ 1,263	\$ 16,959	\$ 2,800	\$ 180	\$ 2,980	\$ 7,955	\$ 636	\$ 8,591

The bond premium of \$13,660, incurred in fiscal year 2005 associated with the issuance of \$9,000,000 of bonds, is being amortized on a straight-line basis over a 20 year period ending in fiscal year 2025. The annual amortization is \$683, and the unamortized bond premium at year-end is \$10,928.

GATEWAY REGIONAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009

4. DETAILED NOTES ON ALL FUNDS (continued)

F. Long-term debt (continued)

Business-type activities

The District has several lease agreements to finance the acquisition of laptop computers which are then sold to students and teachers through a lease purchase agreement. The District's lease agreements with computer vendors qualify as capital leases for accounting purposes (title transfers at the end of the lease term) and, therefore, have been recorded as liabilities at the present value of the future minimum lease payments. The District's general fund subsidizes a portion of the student's lease purchase payments for those students who qualify as "low-income". See footnote 4B for details associated with the notes receivable from the District's governmental-activities statements.

Long-term liability activity associated with the capital lease obligations for the year ended June 30, 2009, was as follows:

Description	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year	Due After One Year	FY 2009 Interest Expense
Capital lease obligations . .	\$ 27,561	\$ -	\$ 27,500	\$ 61	\$ 61	\$ -	\$ 1,276

G. Net assets

The District has the following net restricted assets reported in its government-wide statement of net assets associated with governmental activities.

Description	Amount
Specific grant or project purposes	\$ 1,103,894
Inventory	5,446
Total	<u>\$ 1,109,340</u>

GATEWAY REGIONAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009

4. DETAILED NOTES ON ALL FUNDS (CONTINUED)

G. Net assets (continued)

A reconciliation between restricted net assets in the government-wide statement of net assets (Exhibit A) and the governmental funds balance sheet (Exhibit C) is presented below.

	Exhibit C	Net Assets (Exhibit A)		
	Fund Balances	Invested in capital assets net of related debt	Restricted	Unrestricted
General fund:				
Unreserved-available for appropriation.	\$ 866,807	\$ -	\$ -	\$ 866,807
Reserved for:				
Reduce subsequent years' assessments	353,235	-	-	353,235
Debt service fund:				
Reserved for debt service	13,118	-	13,118	-
Other nonmajor funds:				
Reserved for:				
Inventory.	5,446	-	5,446	-
Reduce subsequent years' assessments	142,849	-	142,849	-
Expenditures.	844,855	-	844,855	-
Subtotals	2,226,310	-	1,006,268	1,220,042
Adjustments required by GASB #34:				
Capital assets	-	38,691,504	-	-
Outstanding bans associated with capital assets	-	(114,000)	114,000	-
Outstanding bonds associated with capital assets ...	-	(8,255,000)	-	-
Outstanding lease obligations associated with capital assets	-	(15,696)	-	-
Other post-employment benefits obligation	-	-	-	(840,327)
Compensated absences	-	-	-	(437,000)
Capital lease obligations	-	-	-	(2,800)
Early retirement liability	-	-	-	(7,955)
Unamortized bond premium	-	-	(10,928)	-
Accrued interest	-	-	-	(166,364)
Total.	<u>\$ 2,226,310</u>	<u>\$ 30,306,808</u>	<u>\$ 1,109,340</u>	<u>\$ (234,404)</u>

GATEWAY REGIONAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009

5. OTHER INFORMATION

A. Risk management

Hampshire County Health Group

The District, along with fifty-five other governmental entities from the neighboring geographic area, is a member of the Hampshire County Health Group ("HCHG"), a public entity risk pool, currently operating as a common risk sharing management and health insurance program for eligible active and former employees of these fifty-six members.

Payment, in the form of insurance premiums, is made monthly to HCHG. These payments are funded in part from the District (recorded as expenditures in the general fund), and payroll withholdings from active employees, or direct payments from retired and certain eligible former employees. The District pays between 70% and 80% of the cost of insurance for active employees. Retired and other past employees who may be eligible to participate in the plan must pay 50% of their premium cost.

The District makes payments to HCHG in the form of monthly premiums based upon actual employee enrollment. HCHG makes payment, through a third party administrator for actual health claims incurred for the entire group. At the end of HCHG's fiscal year, the Group's insurance consultant will determine if assets are sufficient to meet the liabilities of the Group on an accrual basis and premium rates are adjusted to meet the anticipated needs of the ensuing year. It is anticipated that if claim liabilities exceed assets, premium rates will be adjusted prospectively to recover the necessary assets to meet claims.

Based upon the unaudited results of operations of HCHG for the fiscal year ended March 31, 2009 the District's insurance consultants have reported that HCHG has an accumulated surplus of approximately \$11,326,732 through March 31, 2009.

Commercial Liability Insurance

The District is exposed to various risks of loss relating to torts; theft or damage of, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District has obtained a variety of commercial liability insurance policies which passes the risk of loss listed above to independent third parties. Settlement claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

GATEWAY REGIONAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009

5. OTHER INFORMATION (continued)**B. Contingent liabilities**

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal and state governments. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the District expects such amounts, if any, to be immaterial.

There are no suits or claims pending against the District which, individually or in the aggregate is believed by counsel to be likely to result in a judgment or judgments that would materially affect the District's financial position.

C. Employee retirement systems and pension plans

Pensions for employees other than school department teaching staff are provided through a contributory retirement system under the Massachusetts Contributory Retirement Law, which is governed by Chapter 32 of the Massachusetts General Laws. Both employer and employee contributions are actuarially determined as directed by the State Division of Insurance. Required contribution rates for employees range from 5% to 9% of wages based upon their date of hire with an additional 2% contribution applied to wages in excess of \$30,000 for employees hired after December 31, 1978 and before June 30, 2001. In general, employees hired after June 2001, pay 11%. For fiscal 2009 the System required the District to pay a contribution rate equal to 3.19% of all required employer contributions compared to 3.27% for fiscal 2008 and 3.08% for fiscal 2007. Payments for the School District's share of pension costs were \$376,034, \$369,232, and \$329,724 for fiscal years 2009, 2008, and 2007, respectively.

The Hampshire County Retirement System administers this defined benefit, multi-employer plan that provides retirement, survivor, disability and accident benefits. The Plan issues stand alone financial statements, which can be obtained by writing the Hampshire County Retirement System, Court House, 99 Main Street, Northampton, Massachusetts 01060.

School Department teaching staff contributes to the Massachusetts Teachers' Retirement System administered by the Massachusetts Teachers Retirement Board. The District's only contributions to this plan are through deductions from certain federal grants; however, the State contributed \$2,322,864 into the System for the benefit of the District's employees. The District reports these "on-behalf" payments as both revenues and expenditures in a special revenue revolving fund.

Both retirement systems are contributory, multi-employer, defined benefit plans. Membership in the plans is mandatory immediately upon the commencement of employment for all permanent full-time employees.

GATEWAY REGIONAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009

5. OTHER INFORMATION (continued)

D. Other post employment benefits

The District prospectively adopted and implemented GASB Statement No. 45, Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions, required for fiscal periods beginning after December 15, 2007, in fiscal 2009. This statement addresses how governments should account for and report their costs and obligations related to post employment healthcare and other nonpension benefits.

Plan Description. The District participates in a defined benefit retiree medical insurance plan. The District contributes to a cost-sharing multiple-employer defined benefit healthcare plan for eligible retired employees. The plan is administered by the Hampshire County Health Group ("HCHG"). This plan is subject to the provisions of Massachusetts General Law Chapter 32B, Sections 9A, 9D, and 10 with eligibility requirements conditional by the District's school committee. This plan does issue stand alone financial statements.

Coverage. Non-Medicare retirees have their choice between network Blue England HMO or Blue Care Elect Preferred PPO. Medicare eligible retirees must elect Medex.

Eligibility. Retirees are eligible at age 55 with at least 10 years of service.

Cost Sharing. The retiree is responsible for 50% of the premiums.

Spouse Coverages. Spouses are covered under the plan.

Surviving Spouse Coverage. Surviving spouse pays 100% of the premium.

Annual Premiums. Annual premiums are as follows.

Description	Individual	Employee+1	Family
As of April 1, 2009:			
Pre 65 Plans:			
Blue Care (PPO) . . .	\$ 6,768.72	N/A	\$ 18,540.00
Network Blue	\$ 5,789.76	\$ 13,482.96	\$ 16,716.48
As of January 1, 2009:			
Post 65 Plans:			
Medex	\$ 4,356.00	N/A	N/A

GATEWAY REGIONAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009

5. OTHER INFORMATION (continued)

D. Other post employment benefits (continued)

Annual OPEB Cost and Net OPEB Obligation. For the fiscal year ended June 30, 2009.

Description	Amount
Annual Required Contribution (ARC)	\$ 1,137,685
Interest on Net OPEB Obligation	-
Adjustment to ARC	-
Annual OPEB Cost (Expense)	1,137,685
Expected Benefit Payouts (assumed middle of year) ..	297,358
Increase in Net OPEB Obligation	840,327
Net OPEB Obligation - Beginning of the Year	-
Net OPEB Obligation - End of the Year	<u>\$ 840,327</u>

Description	Amount
Annual OPEB Cost (Expense)	\$ 1,137,685
Percentage of Annual OPEB Cost Contributed	26.1%
Net OPEB Obligation - End of the Year	\$ 840,327
Covered Payroll	\$ 6,974,000
OPEB Cost as a Percentage of Covered Payroll	16.3%

Funding Status. The funded status of the plan as of July 1, 2008 (the actuarial valuation date) is shown below.

Description	Amount
Actuarial Accrued Liability (AAL)	\$ 12,096,102
Actual Value of Plan Assets	-
Unfunded Actuarial Accrued Liability (UAAL)	<u>12,096,102</u>
Funded Ratio (Actuarial Value of Plan Assets/AAL)	0.0%
Covered Payroll (Active Plan Members)	6,974,000
UAAL as a Percentage of Covered Payroll	173.4%

Contributions made to the plan are shown below.

Year Ended June 30	Annual Required Contribution	Actual Contribution Made	Percentage Contributed
2009	\$ 1,137,685	\$ 297,358	26.14%

GATEWAY REGIONAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009

5. OTHER INFORMATION (continued)

D. Other post employment benefits (continued)

Actuarial Methods and Assumptions. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plans and the annual required contributions of the employees are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. Since fiscal 2009 is the first year of implementing the provisions of GASB No. 45 there is no schedule of funding progress presented as required supplementary information. However, beginning in fiscal 2011, after the next actuarial report is conducted, a schedule of funding progress will be provided.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2008 actuarial valuation the following methods and assumptions were used.

Description	Assumption
Funding Interest Rate	4.00%
2008 Medical Trend Rate	10.00%
Ultimate Trend Rate	5.00%
Year Ultimate Trend Rate Reached	2013
Actuarial Cost Method	Entry Age Normal
Amortization Period	30 Years
Projected Annual Increase in Payroll	2.50%

GATEWAY REGIONAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009

5. OTHER INFORMATION (continued)

D. Other post employment benefits (continued)

Membership in the Plans. Plan memberships consist of the following as of February 1, 2009.

Description	Active Employees	Current Retirees
Average age at hire:		
Males	39.2	N/A
Females	36.2	N/A
Totals	36.9	N/A
Average service:		
Males	8.7	N/A
Females	12.2	N/A
Totals	11.4	N/A
Average current age:		
Males	47.9	64.0
Females	48.4	65.6
Totals	48.3	65.0

E. Implementation of new governmental accounting standards board (GASB) pronouncements

During fiscal year 2009 the following GASB pronouncements were implemented.

The GASB issued Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pension Plans, was implemented in fiscal 2009. See footnote 5D above for this pronouncement's additional disclosure requirements and impact on the District's basic financial statements.

The GASB issued Statement No. 49, Accounting and Financial Reporting for Pollution Remediation Obligations. This statement requires governments to recognize obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. This pronouncement did not have an impact on the District's basic financial statements.

The GASB issued Statement No. 50, Pension Disclosures, An Amendment of GASB Statements No. 25 and No. 27. This statement amends applicable note disclosures and required supplemental information requirements of GASB Statements No. 25 and No. 27 (pension plans) to conform with the requirements of GASB Statements No. 43 and No.45 regarding other post-employment benefits. This pronouncement did not impact the District's basic financial statements.

GATEWAY REGIONAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009

5. OTHER INFORMATION (continued)

E. Implementation of new governmental accounting standards board (GASB) pronouncements (continued)

The GASB issued Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*. This statement amends GASB Statement No. 31 and requires endowments to report their land and other real estate held for investment purposes at fair value rather than at historic cost. This pronouncement did not impact the District's basic financial statements.

The GASB issued Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. This pronouncement transfers the current generally accepted accounting principles hierarchy as set forth in the American Institute of Certified Public Accountants' Statement on Auditing Standards No. 69, *The Meaning of "Present Fairly in Conformity With Generally Accepted Accounting Principles"* in the *Independent Auditor's Report* to the GASB authoritative literature for state and local governments. The statement is intended to improve state and local financial reporting by further centralizing the codification of GAAP into a single authoritative source. This pronouncement did not impact the District's basic financial statements.

The GASB issued Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*. The statement guidance addresses three issues – related party transactions, going concern considerations, and subsequent events. For related party transactions, the standard requires the preparer to consider whether a *form-over-substance* condition exists. For subsequent events, the standard requires additional disclosures in the financial statements if certain transactions and events known as *type one* and *type two* events occur. If it has been determined that there is substantial doubt about a governmental entity's assumption of going concern, this statement requires substantial note disclosure about the event. Because no events or issues described in this statement occurred, this pronouncement did not impact the District's basic financial statements.

Other Future GASB Pronouncements

The GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, which is required to be implemented in fiscal 2010. The objective of this statement is to establish accounting and reporting requirements for intangible assets to reduce inconsistencies that have resulted from an absence of sufficiently specific authoritative guidance. Governments possess many different types of assets that may be considered intangible assets, including easements, water rights, timber rights, patents, trademarks, and computer software. Intangible assets, and more specifically easements, are referred to in the description of capital assets in Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments." This reference has created questions as to whether and when intangible assets should be considered capital assets for financial reporting purposes. An absence of sufficiently specific authoritative guidance that addresses these questions has resulted in inconsistencies in the accounting and financial reporting of intangible assets among state and local governments, particularly in the areas of recognition, initial measurement, and amortization. The objective of this Statement is to establish accounting and financial reporting requirements for intangible assets to reduce these inconsistencies, thereby enhancing the comparability of the accounting and financial reporting of such assets among state and local governments. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2009. Management believes this pronouncement will not impact the basic financial statements

**GATEWAY REGIONAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009**

5. OTHER INFORMATION (continued)

E. Implementation of new governmental accounting standards board (GASB) pronouncements (continued)

The GASB issued Statement No. 53, "Accounting and Financial Reporting for Derivative Instruments". This Statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. Derivative instruments are often complex financial arrangements used by governments to manage specific risks or to make investments. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2009. Management does not believe this pronouncement will have an impact on the basic financial statements.

GASB issued Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions" issued March 2009. The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of resources reported in governmental funds. The requirements of this Statement are effective for fiscal year 2011. Management does not believe this pronouncement will have a significant impact on the basic financial statements.

(CONCLUDED)

SCHEDULE 1

GATEWAY REGIONAL SCHOOL DISTRICT
NONMAJOR GOVERNMENTAL FUNDS
COMBINING SCHEDULE OF BALANCE SHEETS
AS OF JUNE 30, 2009

	Special Revenue Funds	Capital Project Funds	Total Nonmajor Governmental Funds
<u>Assets</u>			
Pooled cash	939,732	-	939,732
Due from other governments	161,972	-	161,972
Inventory	5,446	-	5,446
Total assets	<u>1,107,150</u>	<u>-</u>	<u>1,107,150</u>
<u>Liabilities and fund balances</u>			
Liabilities - bond anticipation notes	-	114,000	114,000
Fund balances:			
Reserved for inventory	5,446	-	5,446
Reserved for designated expenditures	958,855	(114,000)	844,855
Reserved to reduce subsequent year's assessments	142,849	-	142,849
Total fund balances	<u>1,107,150</u>	<u>(114,000)</u>	<u>993,150</u>
Total liabilities and fund balances	<u>1,107,150</u>	<u>-</u>	<u>1,107,150</u>

See accompanying notes to the basic financial statements.

SCHEDULE 2**GATEWAY REGIONAL SCHOOL DISTRICT****NONMAJOR GOVERNMENTAL FUNDS****COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2009**

	Special Revenue Funds	Capital Project Funds	Total Other Governmental Funds
Revenues:			
Intergovernmental.	2,817,620	-	2,817,620
Investment income.	141	-	141
Fees and charges for services	326,274	-	326,274
Other.	49,484	-	49,484
Total revenues.	3,193,519	-	3,193,519
Other financing sources - transfers from the general fund . . .	-	57,000	57,000
Total revenues and other financing sources.	3,193,519	57,000	3,250,519
Expenditures:			
Instruction.	2,074,376	-	2,074,376
Ancillary school services	474,478	-	474,478
Maintenance and operations.	1,008	-	1,008
Total expenditures.	2,549,862	-	2,549,862
Other financing uses - transfers to the general fund	165,450	5,083	170,533
Total expenditures and other financing uses.	2,715,312	5,083	2,720,395
Net changes in fund balances	478,207	51,917	530,124
Fund balance - beginning of the year.	628,943	(165,917)	463,026
Fund balance - end of the year	1,107,150	(114,000)	993,150

See accompanying notes to the basic financial statements.

SCHEDULE 3

GATEWAY REGIONAL SCHOOL DISTRICT
NONMAJOR SPECIAL REVENUE FUNDS
COMBINING SCHEDULE OF BALANCE SHEETS
JUNE 30, 2009

	Assets				Fund Balances			
	Due from			Total	Reserved for Inventory	Reserved to Reduce Assessments	Reserved for Designated Expenditures	Total
	Pooled Cash	Other Governments	Inventory					
Revolving funds:								
Adult education	973	-	-	973	-	-	973	973
Athletic	64,429	-	-	64,429	-	-	64,429	64,429
Blandford elementary	1,954	-	-	1,954	-	-	1,954	1,954
Building use	43,230	-	-	43,230	-	-	43,230	43,230
Chester elementary	4,934	-	-	4,934	-	-	4,934	4,934
Circuit breaker	229,542	76,555	-	306,097	-	-	306,097	306,097
District donation	1,964	-	-	1,964	-	-	1,964	1,964
Emergency planning	1,718	-	-	1,718	-	-	1,718	1,718
E-rate	12,063	-	-	12,063	-	-	12,063	12,063
Food service	16,356	15,401	5,446	37,203	5,446	-	31,757	37,203
Friends of gateway	1,282	-	-	1,282	-	-	1,282	1,282
Ghs lost textbooks	758	-	-	758	-	-	758	758
Ghs vanderbilt study	553	-	-	553	-	-	553	553
Gms lost textbooks	20	-	-	20	-	-	20	20
Gms vanderbilt study	902	-	-	902	-	-	902	902
Henderson memorial	139	-	-	139	-	-	139	139
High school foundation for excellence ...	2,706	-	-	2,706	-	-	2,706	2,706
Lost library books	220	-	-	220	-	-	220	220
Masca counselor summer camp	500	-	-	500	-	-	500	500
Murrayfield elementary	2,666	-	-	2,666	-	-	2,666	2,666
Parking fees	2,025	-	-	2,025	-	-	2,025	2,025
Recycling	1,032	-	-	1,032	-	-	1,032	1,032
Russell elementary	3,249	-	-	3,249	-	-	3,249	3,249
School choice	317,630	-	-	317,630	-	142,849	174,781	317,630
Student identification	7,304	-	-	7,304	-	-	7,304	7,304
Technology	3,000	-	-	3,000	-	-	3,000	3,000
Tuition	29,784	-	-	29,784	-	-	29,784	29,784
Wellness center	37,725	-	-	37,725	-	-	37,725	37,725
Worthington elementary	4,071	-	-	4,071	-	-	4,071	4,071
Wrap around day care	107,108	-	-	107,108	-	-	107,108	107,108
Federal/state/other grants:								
Community partnership fy09	(33,445)	33,445	-	-	-	-	-	-
Culture council fy09	1,029	-	-	1,029	-	-	1,029	1,029
Five college study program fy09	26	-	-	26	-	-	26	26
Mcc creative school fy09	1,500	-	-	1,500	-	-	1,500	1,500
School to work fy09	1,767	350	-	2,117	-	-	2,117	2,117
Sped idea 94-142 fy09	39,104	-	-	39,104	-	-	39,104	39,104
Teaching American history fy09	(36,221)	36,221	-	-	-	-	-	-
Title I fy09	23,429	-	-	23,429	-	-	23,429	23,429
Title II fy09	1,429	-	-	1,429	-	-	1,429	1,429
Title IIB fy09	41,277	-	-	41,277	-	-	41,277	41,277
Total	939,732	161,972	5,446	1,107,150	5,446	142,849	958,855	1,107,150

See accompanying notes to the basic financial statements.

SCHEDULE 4**GATEWAY REGIONAL SCHOOL DISTRICT****NONMAJOR SPECIAL REVENUE FUNDS****COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2009**

	Revenues (See page 6-6 and page 6-7 for details)	Expenditures (See page 6-8 and page 6-9 for details)	Other Financing Uses	Net Changes in Fund Balances	Fund Balance	
					June 30, 2008	June 30, 2009
<u>Revolving funds:</u>						
Adult education	-	-	-	-	973	973
Athletic	37,201	-	-	37,201	27,228	64,429
Blandford elementary	835	115	-	720	1,234	1,954
Building use	16,596	1,008	-	15,588	27,642	43,230
Chester elementary	467	69	-	398	4,536	4,934
Circuit breaker	306,220	178,736	-	127,484	178,613	306,097
District donation	408	531	-	(123)	2,087	1,964
Emergency planning	45	395	-	(350)	2,068	1,718
E-rate	11,896	-	-	11,896	167	12,063
Food service	411,512	401,118	-	10,394	26,809	37,203
Friends of gateway	888	-	-	888	394	1,282
Head start	17,000	-	17,000	-	-	-
Henderson memorial	-	107	-	(107)	246	139
High school foundation for excellence ...	-	200	-	(200)	2,906	2,706
High school lost textbooks	419	22	-	397	361	758
High school vanderbilt	-	197	-	(197)	750	553
Lost library books	86	24	-	62	158	220
MASCA summer camp	-	-	-	-	500	500
Middle school lost textbooks	20	-	-	20	-	20
Middle school vanderbilt	-	98	-	(98)	1,000	902
Murrayfield elementary	1,962	69	-	1,893	773	2,666
Parking fees	10,603	312	10,291	-	2,025	2,025
Preschool	1,785	1,860	-	(75)	75	-
Recycling	430	-	-	430	602	1,032
Russell elementary	628	69	-	559	2,690	3,249
School choice	219,975	-	138,159	81,816	235,814	317,630
Student identification	2,785	-	-	2,785	4,519	7,304
Technology	3,000	-	-	3,000	-	3,000
Tuition	3,233	-	-	3,233	26,551	29,784
Wellness center	29,463	5,872	-	23,591	14,134	37,725
Worthington elementary	1,771	519	-	1,252	2,819	4,071
Wrap around day care	63,734	-	-	63,734	43,374	107,108
Subtotal carried forward	1,142,962	591,321	165,450	386,191	611,048	997,239

See accompanying notes to the basic financial statements.

(Continued)

SCHEDULE 4**GATEWAY REGIONAL SCHOOL DISTRICT****NONMAJOR SPECIAL REVENUE FUNDS****COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES****FOR THE YEAR ENDED JUNE 30, 2009**

	Revenues	Expenditures	Other	Net	Fund Balance	
	(See page 6-6 and page 6-7 for details)	(See page 6-8 and page 6-9 for details)	Financing Uses	Changes in Fund Balances	June 30, 2008	June 30, 2009
Subtotal carriedforward	1,142,962	591,321	165,450	386,191	611,048	997,239
Federal/state/other grants:						
Academic support enhancement fy09	5,000	5,000	-	-	-	-
Academic support fy09	5,000	5,000	-	-	-	-
Community partnership fy09	177,508	177,508	-	-	-	-
Cultural council fy09	1,029	-	-	1,029	-	1,029
Drug free schools fy09	5,078	5,078	-	-	-	-
Five colleges fy09	900	874	-	26	-	26
Health fy09	60,000	60,000	-	-	-	-
Mass cultural council fy09	200	200	-	-	-	-
MCC creative schools fy09	7,500	6,000	-	1,500	-	1,500
Pothole fy09	155,000	155,000	-	-	-	-
Recovery act fy09	629,548	629,548	-	-	-	-
Safe schools fy09	1,500	1,500	-	-	-	-
School to work fy09	1,500	700	-	800	1,317	2,117
Secondary reading fy08	-	2,987	-	(2,987)	2,987	-
Sped early childhood fy08	-	1,162	-	(1,162)	1,162	-
Sped early childhood fy09	13,816	13,816	-	-	-	-
Sped idea pl94-142 fy08	-	12,429	-	(12,429)	12,429	-
Sped idea pl94-142 fy09	335,884	296,780	-	39,104	-	39,104
Sped program improvement fy09 ...	4,150	4,150	-	-	-	-
Summer MCAS fy09	3,419	3,419	-	-	-	-
Teaching American history fy09	298,073	298,073	-	-	-	-
Title I fy09	175,182	151,753	-	23,429	-	23,429
Title II fy09	61,829	60,400	-	1,429	-	1,429
Title IIB fy09	106,216	64,939	-	41,277	-	41,277
Title IID fy09	2,225	2,225	-	-	-	-
Total	3,193,519	2,549,862	165,450	478,207	628,943	1,107,150

See accompanying notes to the basic financial statements.

(Continued)

SCHEDULE 4a**GATEWAY REGIONAL SCHOOL DISTRICT****NONMAJOR SPECIAL REVENUE FUNDS****COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES****FOR THE YEAR ENDED JUNE 30, 2009**

	Revenues				Totals (See pages 6-4 and 6-5)
	Inter- governmental	Investment Income	Fees and Charges for Services	Other	
<u>Revolving funds:</u>					
Athletic	-	-	37,201	-	37,201
Blandford elementary	-	-	-	835	835
Building use	-	-	16,596	-	16,596
Chester elementary	-	-	-	467	467
Circuit breaker	306,220	-	-	-	306,220
District donation	-	-	-	408	408
Emergency planning	-	-	-	45	45
E-rate	-	-	-	11,896	11,896
Food service	250,497	141	160,874	-	411,512
Friends of gateway	-	-	-	888	888
Head start	-	-	-	17,000	17,000
High school lost textbooks	-	-	-	419	419
Lost library books	-	-	-	86	86
Middle school lost textbooks	-	-	-	20	20
Murrayfield elementary	-	-	-	1,962	1,962
Parking fees	-	-	10,603	-	10,603
Preschool	-	-	1,785	-	1,785
Recycling	-	-	-	430	430
Russell elementary	-	-	-	628	628
School choice	219,975	-	-	-	219,975
Student identification	-	-	2,785	-	2,785
Technology	-	-	-	3,000	3,000
Tuition	-	-	3,233	-	3,233
Wellness center	-	-	29,463	-	29,463
Worthington elementary	-	-	-	1,771	1,771
Wrap around day care	-	-	63,734	-	63,734
Subtotal carriedforward	776,692	141	326,274	39,855	1,142,962

See accompanying notes to the basic financial statements.

(Continued)

GATEWAY REGIONAL SCHOOL DISTRICT**NONMAJOR SPECIAL REVENUE FUNDS****COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES****FOR THE YEAR ENDED JUNE 30, 2009**

	Revenues				Totals (See pages 6-4 and 6-5)
	Inter- governmental	Investment Income	Fees and Charges for Services	Other	
Subtotal carried forward	776,692	141	326,274	39,855	1,142,962
<u>Federal/state/other grants:</u>					
Academic support enhancement fy09 . . .	5,000	-	-	-	5,000
Academic support fy09	5,000	-	-	-	5,000
Community partnership fy09	177,508	-	-	-	177,508
Cultural council fy09	-	-	-	1,029	1,029
Drug free schools fy09	5,078	-	-	-	5,078
Five colleges fy09	-	-	-	900	900
Health fy09	60,000	-	-	-	60,000
Mass cultural council fy09	-	-	-	200	200
MCC creative schools fy09	-	-	-	7,500	7,500
Pothole fy09	155,000	-	-	-	155,000
Recovery act fy09	629,548	-	-	-	629,548
Safe schools fy09	1,500	-	-	-	1,500
School to work fy09	1,500	-	-	-	1,500
Sped early childhood fy09	13,816	-	-	-	13,816
Sped idea pl94-142 fy09	335,884	-	-	-	335,884
Sped program improvement fy09	4,150	-	-	-	4,150
Summer MCAS fy09	3,419	-	-	-	3,419
Teaching American history fy09	298,073	-	-	-	298,073
Title I fy09	175,182	-	-	-	175,182
Title II fy09	61,829	-	-	-	61,829
Title IIB fy09	106,216	-	-	-	106,216
Title IID fy09	2,225	-	-	-	2,225
Total	2,817,620	141	326,274	49,484	3,193,519

See accompanying notes to the basic financial statements.

(Continued)

SCHEDULE 4b**GATEWAY REGIONAL SCHOOL DISTRICT****NONMAJOR SPECIAL REVENUE FUNDS****COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2009**

	Expenditures			Totals (See pages 6-4 and 6-5)
	Instruction	Ancillary School Services	Maintenance and Operations	
<u>Revolving funds:</u>				
Blandford elementary	-	115	-	115
Building use	-	-	1,008	1,008
Chester elementary	-	69	-	69
Circuit breaker	178,736	-	-	178,736
District donation	-	531	-	531
Emergency planning	-	395	-	395
Food service	-	401,118	-	401,118
Henderson memorial	-	107	-	107
High school foundation for excellence .	-	200	-	200
High school lost textbooks	22	-	-	22
High school vanderbilt	197	-	-	197
Lost library books	-	24	-	24
Middle school vanderbilt	98	-	-	98
Murrayfield elementary	-	69	-	69
Parking fees	-	312	-	312
Preschool	1,860	-	-	1,860
Russell elementary	-	69	-	69
Wellness center	-	5,872	-	5,872
Worthington elementary	-	519	-	519
Subtotal carriedforward	180,913	409,400	1,008	591,321

See accompanying notes to the basic financial statements.

(Continued)

SCHEDULE 4b**GATEWAY REGIONAL SCHOOL DISTRICT****NONMAJOR SPECIAL REVENUE FUNDS****COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES****FOR THE YEAR ENDED JUNE 30, 2009**

	Expenditures			Totals (See pages 6-4 and 6-5)
	Instruction	Ancillary School Services	Maintenance and Operations	
Subtotal carried forward	180,913	409,400	1,008	591,321
<u>Federal/state/other grants:</u>				
Academic support enhancement fy09 ..	5,000	-	-	5,000
Academic support fy09	5,000	-	-	5,000
Community partnership fy09	177,508	-	-	177,508
Drug free schools fy09	-	5,078	-	5,078
Five colleges fy09	874	-	-	874
Health fy09	-	60,000	-	60,000
Mass cultural council fy09	200	-	-	200
MCC creative schools fy09	6,000	-	-	6,000
Pothole fy09	155,000	-	-	155,000
Recovery act fy09	629,548	-	-	629,548
Safe schools fy09	1,500	-	-	1,500
School to work fy09	700	-	-	700
Secondary reading fy08	2,987	-	-	2,987
Sped early childhood fy08	1,162	-	-	1,162
Sped early childhood fy09	13,816	-	-	13,816
Sped idea pl94-142 fy08	12,429	-	-	12,429
Sped idea pl94-142 fy09	296,780	-	-	296,780
Sped program improvement fy09	4,150	-	-	4,150
Summer MCAS fy09	3,419	-	-	3,419
Teaching American history fy09	298,073	-	-	298,073
Title I fy09	151,753	-	-	151,753
Title II fy09	60,400	-	-	60,400
Title IIB fy09	64,939	-	-	64,939
Title IID fy09	2,225	-	-	2,225
Total	2,074,376	474,478	1,008	2,549,862

See accompanying notes to the basic financial statements.

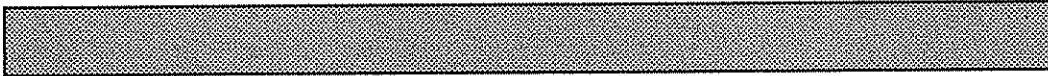
(Concluded)

SCHEDULE 5

GATEWAY REGIONAL SCHOOL DISTRICT
NONMAJOR CAPITAL PROJECT FUNDS
COMBINING SCHEDULE OF BALANCE SHEETS
JUNE 30, 2009

	Buildings Construction and Renovations Fund	School Roof Repairs Fund	Totals
Liabilities - bond anticipation notes payable	-	114,000	114,000
Fund balance - reserved for designated expenditures	-	(114,000)	(114,000)
Total liabilities and fund balances	-	-	-

See notes to the basic financial statements.

**SCHEDULE 6**

GATEWAY REGIONAL SCHOOL DISTRICT
NONMAJOR CAPITAL PROJECT FUNDS
COMBINING SCHEDULE OF OTHER FINANCING USES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2009

	Buildings Construction and Renovations Fund	School Roof Repairs Fund	Totals
Other financing sources - transfers from the general fund ...	-	57,000	57,000
Other financing uses - transfers to the general fund	5,083	-	5,083
Net changes in fund balance	(5,083)	57,000	51,917
Fund balance - beginning of the year	5,083	(171,000)	(165,917)
Fund balance - end of the year	-	(114,000)	(114,000)

See accompanying notes to the basic financial statements.

SCHEDULE 7

GATEWAY REGIONAL SCHOOL DISTRICT
FIDUCIARY FUNDS
COMBINING SCHEDULE OF NET ASSETS
AS OF JUNE 30, 2009

	Assets	Liabilities			Net Assets	Total
	Pooled	Due to	Accounts		Held in	Liabilities
	Cash	Students	Payable	Total	Trust for	and Net
		Groups			Scholarships	Assets
<u>Agency funds:</u>						
High school student activities	49,431	49,431	-	49,431	-	49,431
Middle school student activities	10,050	10,050	-	10,050	-	10,050
Total agency funds	59,481	59,481	-	59,481	-	59,481
<u>Expendable trust funds:</u>						
Carmel scholarship	14,822	-	14,300	14,300	522	14,822
Champiney scholarship	1,400	-	1,400	1,400	-	1,400
Euler memorial scholarship	1,000	-	1,000	1,000	-	1,000
Total expendable trust funds	17,222	-	16,700	16,700	522	17,222
Total fiduciary funds	76,703	59,481	16,700	76,181	522	76,703

See accompanying notes to the basic financial statements.

SCHEDULE 8

GATEWAY REGIONAL SCHOOL DISTRICT
PRIVATE-PURPOSE TRUST FUNDS
COMBINING SCHEDULE OF ADDITIONS, DEDUCTIONS, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2009

	Additions			Change	Net Assets	
	Donations	Interest	Deductions	in Net	June 30,	June 30,
				Assets	2008	2009
<u>Expendable trust funds:</u>						
Carmel scholarship	14,010	83	14,300	(207)	729	522
Champiney scholarship	-	-	1,400	(1,400)	1,400	-
Euler memorial scholarship	500	-	1,000	(500)	500	-
Total expendable trust funds	14,510	83	16,700	(2,107)	2,629	522

See accompanying notes to the basic financial statements.

SCHEDULE 9

GATEWAY REGIONAL SCHOOL DISTRICT
RECONCILIATION OF TREASURER'S CASH
FOR THE YEAR ENDED JUNE 30, 2009

Bank checking accounts - interest bearing:		
United bank - general	(573,080)	
United bank - cafeteria	63,076	
United bank - student activities	19,576	
Total bank checking accounts - interest bearing		(490,428)
Liquid investments:		
Massachusetts municipal depository trust - general	2,325,156	
United bank - general	594,381	
United bank - carmel scholarship	14,348	
United bank - student activities	39,905	
Total liquid investment accounts		2,973,790
Total pooled cash		<u>2,483,362</u>

Pooled cash is presented in the basic financial statements as follows:

General fund	1,396,397
Debt service fund	13,118
Other nonmajor governmental funds	939,732
Subtotal	<u>2,349,247</u>
Trust and agency funds	76,703
Subtotal - governmental activities	<u>2,425,950</u>
Proprietary activities - laptop program	54,412
Total pooled cash	<u>2,480,362</u>

Reconciliation between reported treasurer's quarterly cash report and financial statement cash:

Total cash per treasurer's quarterly cash report	2,473,347
Audit adjustment to recognize deposits in transit to student activity band accounts	7,015
Total pooled cash per above	<u>2,480,362</u>

See accompanying notes to the basic financial statements.

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the School Committee of the
Gateway Regional School District:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Gateway Regional School District of Massachusetts (the "District") as of and for the year ended June 30, 2009, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 28, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiency described in the accompanying schedule of findings and questioned costs under heading B - *Findings - Financial Statements Audit*, "Finding 09-1" to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is not a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we have reported to management of the District in a separate letter dated October 28, 2009.

The District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the District's response and, accordingly, we express no opinion on it.

This report is intended for the information of the school committee, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Stanley H. Kulas, CPA

STANLEY H. KULAS
Certified Public Accountant
October 28, 2009

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the School Committee of the
Gateway Regional School District:

Compliance

We have audited the compliance of the Gateway Regional School District (the "District") with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2009. The District's major programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses or significant deficiencies, as defined above.

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the District's response and, accordingly, we express no opinion on it.

This report is intended for the information and use of the school committee, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Stanley H. Kulas, CPA

STANLEY H. KULAS
Certified Public Accountant
October 28, 2009

GATEWAY REGIONAL SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2009

A. SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an opinion on the basic financial statements of the Gateway Regional School District which was unqualified.
2. One significant deficiency disclosed during the audit of the basic financial statements is reported in the "Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*." This deficiency is not reported as a material weakness.
3. No instances of noncompliance material to the basic financial statements of the District were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal award programs are reported in the "Report on Compliance With Requirements Applicable to Each Major Program & Internal Control Over Compliance in Accordance With Circular A-133."
5. The auditors' report on compliance for the major federal award programs for the District expresses an unqualified opinion.
6. There were no audit findings relative to the District's federal award major programs.
7. The programs tested as major programs were:
 - 84.027 Special Education – Grants to States
 - 84.394 Education State Grants – Recovery Act
8. The threshold for distinguishing Types A and B programs was \$300,000.
9. As defined by Circular A-133, the District was determined to be a low risk auditee.

B FINDINGS - FINANCIAL STATEMENTS AUDIT

Significant Deficiency

09-1 – Preparation of financial statements based on generally accepted accounting principles (this deficiency had been noted in the FY08 report)

Condition: As is the case for most school districts and municipalities in Massachusetts, the District does not prepare its financial statements. The financial statements are prepared by the accounting firm that conducts the audit of these statements. Although District management reviews a draft of the financial statements to detect any errors or omissions before the financial statements are finalized and released, the District does not have qualified personnel to determine if these financial statements adhere to the latest governmental accounting standards.

Background: The American Institute of Certified Public Accountants issued Auditing Standard #112 "Communicating Internal Control Related Matters Identified in the Audit", which is effective for fiscal year 2007. This standard requires the auditor to report on control deficiencies involving the preparation of the financial statements. Specifically it addresses the fact that it is the District's, rather than the auditor's, responsibility to prepare financial statements.

Criteria: A system of internal control over financial reporting does not stop at the general ledger. It includes controls over financial statement preparation, including footnote disclosure. The fact that the auditor prepares the financial statements may mean they are correct, but it does not eliminate the control deficiency. An auditor cannot be considered part of the client's internal control. Thus, controls over the financial statement preparation function that exist in the auditor's firm cannot be considered. Only the controls the client has in place can be considered in determining whether there is a control deficiency and its severity.

GATEWAY REGIONAL SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2009

B FINDINGS - FINANCIAL STATEMENTS AUDIT (Continued)

Significant Deficiencies (Continued)

09-1 – Preparation of financial statements based on generally accepted accounting principles (continued)

Effect: Because District personnel are not trained to prepare the financial statements, including accompanying footnotes, there is more than a remote likelihood that District personnel, during their review process, would not be able to detect a significant error or omission in the financial statements.

Recommendation: The District should be aware that this control deficiency exists, and consider whether it wants to spend the resources needed to adequately train its personnel so that they could prepare the financial statements or have the financial statements prepared by a qualified, independent third party.

District's Response: We are aware of this situation and will take the above recommendation under consideration.

C FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

None.

GATEWAY REGIONAL SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2009

FOR THE YEAR ENDED JUNE 30, 2009											
Federal Grantor/Pass-Through Grantor Program Title	Federal CFDA Number	Pass Through Grantor's Number	Program or Award Amount	Fund Balance 07/01/08	Revenues			Expenditures			Fund Balance 06/30/09
					Federal	State	Other	Program Costs	Refunds to State	Other	
<u>U.S. Department of Agriculture</u>											
Passed Through State Department of Education:											
Food Distribution	10.550	08-143-1	N/A	-	37,969	-	-	37,969	-	-	-
National School Breakfast Program	10.553	08-143-1	N/A	-	21,210	-	-	21,210	-	-	-
National School Lunch Program	10.555	08-143-1	N/A	26,809	131,983	7,706	250,613	131,983	-	247,925	37,203
TOTAL DEPARTMENT OF AGRICULTURE											
			-	26,809	191,162	7,706	250,613	191,162	-	247,925	37,203
<u>U.S. Department of Education</u>											
Passed Through State Department of Education:											
Title 1 - Grants to Local Educational Agencies FY09 ..	84.010	305-027-9-0672-J	175,182	-	175,182	-	-	151,753	-	-	23,429
Special Education - Grants to States FY08											
	84.027	240-253-8-0672-I	341,009	12,429	-	-	-	12,429	-	-	-
Special Education - Middle School Read FY08											
	84.027	267-006-8-0672-I	8,000	2,987	-	-	-	2,655	332	-	-
Special Education - Grants to States FY09											
	84.027	240-093-9-0672-J	335,884	-	335,884	-	-	296,780	-	-	39,104
Special Education - Program Improvement FY09											
	84.027	274-085-9-0672-J	4,150	-	4,150	-	-	4,150	-	-	-
Total Program 84.027											
			689,043	15,416	340,034	-	-	316,014	332	-	39,104
Sped Early Childhood Learning FY08											
	84.173	262-XXX-8-0672-I	14,073	1,162	-	-	-	1,162	-	-	-
Sped Early Childhood Learning FY09											
	84.173	262-XXX-9-0672-J	13,816	-	13,816	-	-	13,816	-	-	-
Total Program 84.173											
			27,889	1,162	13,816	-	-	14,978	-	-	-

(Continued)

GATEWAY REGIONAL SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2009

FOR THE YEAR ENDED JUNE 30, 2009											
Federal Grantor/Pass-Through Grantor Program Title	Federal CFDA Number	Pass Through Grantor's Number	Program or Award Amount	Fund Balance 07/01/08	Revenues			Expenditures			Fund Balance 06/30/09
					Federal	State	Other	Program Costs	Refunds to State	Other	
<u>U.S. Department of Education (Continued)</u>											
Passed Through State Department of Education:											
Program for Drug Free Schools FY09	84.186	331-022-9-0672-J	5,078	-	5,078	-	-	5,078	-	-	-
Enhanced Education Through Technology FY09	84.318	160-002-9-0672-J	2,225	-	2,225	-	-	2,225	-	-	-
Math/Science Partnerships FY09	84.366	150-015-9-0672-J	186,609	-	106,216	-	-	84,939	-	-	41,277
Teacher Quality FY09	84.367	140-009-9-0672-J	61,829	-	61,829	-	-	60,400	-	-	1,429
Emergency Recovery FY09	84.394	782-244-9-0672-J	629,548	-	629,548	-	-	629,548	-	-	-
Received Directly From the Federal Government:											
Teaching American History FY09	84.215X	U215X070046	992,500	-	298,073	-	-	298,073	-	-	-
TOTAL DEPARTMENT OF EDUCATION											
			2,769,903	16,578	1,632,001	-	-	1,543,008	332	-	105,239
TOTAL FEDERAL ASSISTANCE											
			2,769,903	43,387	1,823,163	7,706	250,613	1,734,170	332	247,925	142,442

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The schedule of expenditures of federal awards has been prepared on the modified accrual basis of accounting.

NOTE B - FOOD DISTRIBUTION

Nonmonetary assistance is reported in the schedule at fair market value of the commodities received and disbursed.

(Concluded)

GATEWAY REGIONAL SCHOOL DISTRICT
SUMMARY OF PRIOR YEAR'S FINDINGS AND CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2009

SUMMARY SCHEDULE OF PRIOR YEAR'S FINDINGS

There were no findings or questioned costs associated with the audit of major federal award programs for the fiscal year ended June 30, 2008.

CORRECTIVE ACTION PLAN

The only finding regarding this year's audit is a significant deficiency concerning the preparation of financial statements.

Please refer to "Significant Deficiencies 09-1" in Section B of the Schedule of Findings and Questioned Costs beginning on page 7-3 of this report package for a detailed description of this deficiency along with the District's corrective action scenario.

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND INTERNAL CONTROL OVER COMPLIANCE WITH MASSACHUSETTS SCHOOL DISTRICTS

To the School Committee of the
Gateway Regional School District:

Compliance

We have audited the compliance of the Gateway Regional School District (the "District") with the types of compliance requirements described in the Massachusetts Department of Education's 2006 Compliance Supplement applicable to Massachusetts School Districts for the year ended June 30, 2009. Compliance with the requirements of laws, regulations, contracts, and grants applicable to School Districts is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the Massachusetts Department of Education Compliance Supplement. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on Massachusetts School Districts programs occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our firm does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to Massachusetts School Districts for the year ended June 30, 2009.

Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contract, and grants applicable to Massachusetts School Districts. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on its ability to accurately report year-end information in accordance with Massachusetts DOE requirements in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the school committee, management, state funding agencies, and the Massachusetts Department of Education and is not intended to be and should not be used by anyone other than these specified parties.

Stanley H. Kulas, CPA

STANLEY H. KULAS
Certified Public Accountant
October 28, 2009

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REPORT TO MANAGEMENT

To the School Committee of the
Gateway Regional School District:

In planning and performing our audit of the basic financial statements of the Gateway Regional School District of the Commonwealth of Massachusetts (the "District") for the year ended June 30, 2009, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control structure.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We have issued a separate report on significant deficiencies dated October 28, 2009, which is included in this reporting package.

As a result of our audit of the basic financial statements, we noted certain other matters, not considered to be significant deficiencies, which are listed below.

Current Year's Comment:

Student Activity Check Request Form Approval

Prior Year's Comment:

Longevity Payroll Expenditures

This report is intended for the information of the school committee, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

We will be pleased to discuss these recommendations with you and to assist you in implementing them.

Sincerely,

Stanley H. Kulas, CPA

STANLEY H. KULAS
Certified Public Accountant
October 28, 2009

CURRENT YEAR'S COMMENT

STUDENT ACTIVITY CHECK REQUEST FORM APPROVAL

Fiscal 2009 Observation: District policy requires the school principal to approve all student activity check request forms by signing them. There were instances noted where the principal approved her own check request forms. This circumvents the control procedure because the same person that authorizes the form is also approving it.

Fiscal 2009 Recommendation: In instances where the student activity check request form is prepared by the school principal, the District's superintendent or business manager should be required to approve the request by signing the form instead of the principal.

PRIOR YEAR'S COMMENT

LONGEVITY PAYROLL EXPENDITURES

Fiscal 2008 Observation: We noted that \$1,250 of longevity expenses associated with special education teachers were erroneously reported in the regular teacher expenditure account for the Littleville elementary school. For both budgetary and state end of year reporting purposes it is essential that special education costs are segregated from regular education expenses.

Fiscal 2008 Recommendation: The District should periodically reconcile general ledger payroll expenditure accounts to individual personnel salary contracts to ensure that these accounts incorporate the proper payroll expenditures by program type.

Fiscal 2009 Status: We noted one instance where \$1,500 of longevity expenses associated with a special education teacher was erroneously reported in the regular teacher expenditure account for the high school.